



Quarterly Economic Update

June 4, 2008



MACROECONOMIC COMMENTARY

Monetary Policy

By Lance Lachney

At the time of our last meeting, the Federal Reserve had just engineered JP Morgan's bailout of Bear Stearns and lowered short-term interest rates by 75 basis points to 2.25%. The rescue of Bear Stearns was brokered in response to the erosion of confidence in the company's liquidity position. BSC, like most broker-dealers use the repo market to finance its inventory and positions. At the end of the day, other investors refused to accept the counterparty risk that it carried. In helping JP Morgan complete the transaction, the Federal Reserve provided a \$30 billion backstop that, for the most part, is secured by risky mortgage-related assets. This decision has drawn the ire of many, including former Federal Chairman Paul Volker, who stated that the Fed had taken actions that "extend to the very edge of its lawful and implied powers." However, Chairman Bernanke has stuck to his guns, stating to Congress that the "damage caused by a default could have been severe and extremely difficult to contain." After lowering the federal funds rate over 300bps during the last several months, the March statement noted rising inflation expectations and the fact that "credit conditions and the contraction of housing are likely to weigh on growth over the next few quarters."

In addition to the changes in monetary policy, the Federal Reserve also established the Term Securities Lending Facility (TSLF) and Primary Dealer Credit Facility (PDCF). These financing arrangements essentially provide liquidity to primary dealers that are collateralized by a broad range of securities. This was the first time that the Fed had made loans to investment firms since the 1930s. The reasoning behind these moves were to "promote liquidity" and "foster the functioning" of financial markets. Since this enactment, investors have witnessed a gradual improvement in credit spreads, with the cost to insure a basket of securities falling to 110 bps versus 185 bps in mid-March.

At the Federal Reserve's April gathering, policymakers opted to lower the short-term lending rate by 25bps to 2.00%. The minutes of the meeting reflect that the reduction was a "close call" as concerns about inflation started to unfold. As expected, there were two dissenting votes cast by Dallas Fed President Richard Fisher and Philadelphia Fed President Charles Plosser. With the expectation that the Fed will be on hold for the foreseeable future, treasury yields have risen dramatically over the last several weeks. The yield curve, measured by the spread between 2s and 10s, has flattened as well, collapsing approximately 45 bps. Along with the Fed's direct statement concerning energy and other commodity prices, it also removed the assessment of "downside risks," a staple within its dialogue for some time.

As oil and other commodities have touched new highs, investors have had little choice but to turn their attention to inflation. In looking to the TIPS (inflation-

protected securities) market for insight, 10-year breakevens have widened to 252bps from 228bps earlier this month. These types of headlines have many believing the Federal Reserve will raise rates sooner rather than later in order to anchor inflation expectations. Currently, there is virtually no chance of action taken by the Fed at the June meeting according to fed futures. However, there is a 30% probability of a Fed increase by the end of September and certainly one by year-end. This has also been reinforced by the fact that seven of the twelve district banks wanted no change in the discount rate, 2.25% currently, at the April 30 meeting. One of the main concerns was the significant lag of effects due to monetary easing. Unfortunately, over the last few recessions, the market has tended to be quite early in predicting the first rate hike after an easing cycle.

At this stage of the game, we are reluctant to claim that we are “out of the woods.” Housing continues to contract and we have yet to see the inevitable consumer slowdown despite the run-up in food and energy prices. Up to this point, there has been roughly \$400 billion in write-downs and credit losses associated with this crisis and the Fed itself has committed \$512 billion out of its \$800 billion balance sheet. While the participation of sovereign wealth funds has been encouraging, the amount of capital raised during this time has been approximately \$270 billion. Even Chairman Bernanke speaking at an annual bank conference in Chicago clearly exclaimed that financial institutions need to “raise more capital.” That being said, we find it highly unlikely that the Fed will reverse course so abruptly. About the only thing that could change their minds would be a more favorable credit environment or a further explosion in commodity prices. While lending has been much better at the margin, it is far from ideal. Therefore, we feel the Fed is on hold for some time to come.

As it usually does in April, the U.S. government ran a budget surplus of \$159.3 billion. The figure was down slightly, however, from last year's unusually large April surplus of \$177.7 billion. Based on expectations formed by Public Debt Transactions from the Daily Treasury Statement, the budget surplus equaled the consensus forecast.

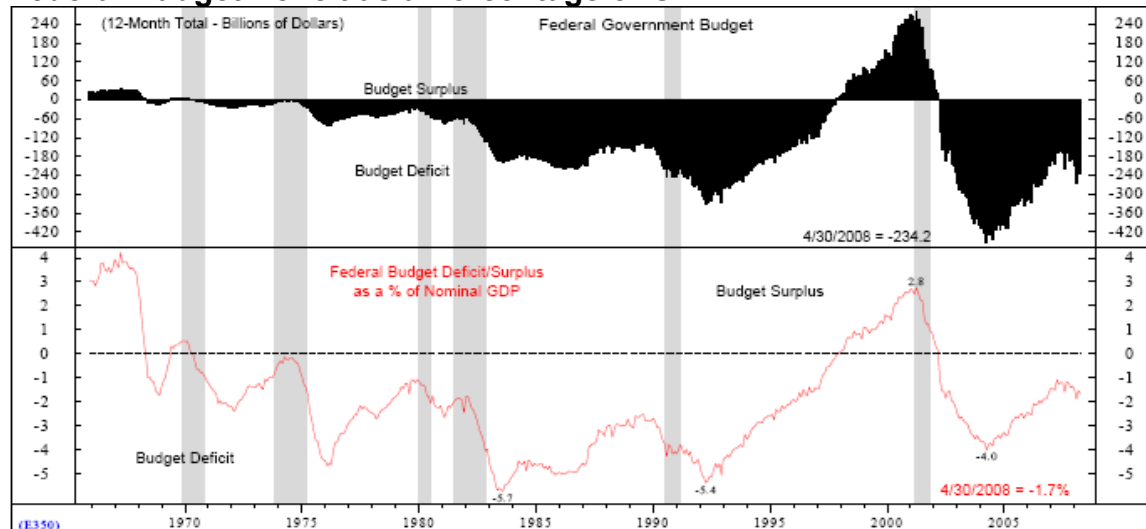
Receipts

For the fiscal year-to-date, federal receipts grew a paltry 3.0% from a year earlier. That compared to 11.2% year over year growth during the first seven month of fiscal year 2007. Higher unemployment constrained the growth in individual income tax receipts (44% of total receipts) to 6.0% this year. As a comparison, last year's growth logged 17% by this time. Growth in withheld income taxes of 5.6% was roughly half that of a year earlier and non-withheld taxes grew 7.3%, or roughly one quarter of the growth seen in 2007. Lower corporate profitability continued to crimp government revenues. Corporate income taxes (13% of total receipts) amounted to \$207 billion, a 6.0% decline from receipts during the first seven months of 2007. Unemployment insurance contributions have fallen 2.7% to date due to negative employment growth and federal excise taxes fell 1.1%.

Outlays

U.S. net outlays grew 7.4% during the first seven months of FY08, more than double the outlay growth of FY07's first seven months. Growth in defense spending (19% of total outlays) also nearly doubled to a 10.6% growth rate but Medicare expenditures (12% of outlays) grew a much slower 2.1%. Growth in Social Security spending (21% of outlays) held steady at 5.4% and interest expense grew 8.6%, held back the recent decline in interest rates. Growth in outlays for income security (15% of outlays) held steady at 15.1% and health spending (10% of total) grew 5.7%.

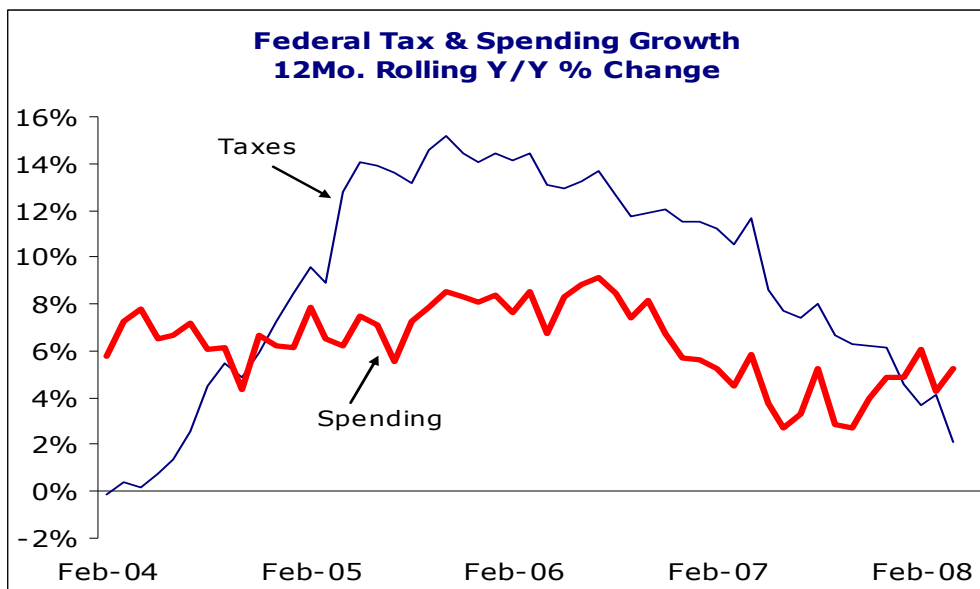
Federal Budget Deficit as a Percentage of GDP



Source: Ned Davis

April tax collection numbers showed the growth of tax revenues have decelerated significantly over the past year. April is the month which has produced large budget deficit reductions in the past as most taxpayers pay their annual income

taxes. With revenues nearly flat, the April collections were not able to produce a reduction in the 12-month rolling deficit. With \$150 billion of total stimulus and an additional \$100 billion of war spending, many argue the budget deficit could reach \$500 billion as the next president takes office. This will portend a likely tax increase in 2009.



Source: Strategas Research Partners

We do not expect any tax increases in 2008 which puts the current period as tied for the longest in post WWII history without a tax increase. What makes this time period different is that not only were there no tax increases, but rather \$2.8 billion of tax cuts have been enacted into law since 1997. With tax revenue declining as a percentage of GDP due to a slower economy and the economic stimulus, a case can certainly be made that the most unprecedented tax cutting era in American history is on its last leg.

Period of No Tax Increase	Length (Years)
1943-1949	7
1952-1966	15
1967	1
1970-1979	9
1981	1
1983	1
1988	1
91-92	2
1994-Present	15

Source: Strategas Research Partners

Attempting to gain economic insight from tax data can be a cumbersome task. One data point that easily stands out is tax revenues from corporations. Corporate tax revenues have now declined ten consecutive months. The sharp slowdown in corporate tax collections underscores the weakness in domestic profits and this is

not merely the result of the tumultuous financial sector. International profits have masked domestic weakness and any slowing of foreign growth will further diminish profits going forward.



Source: Strategas Research Partners

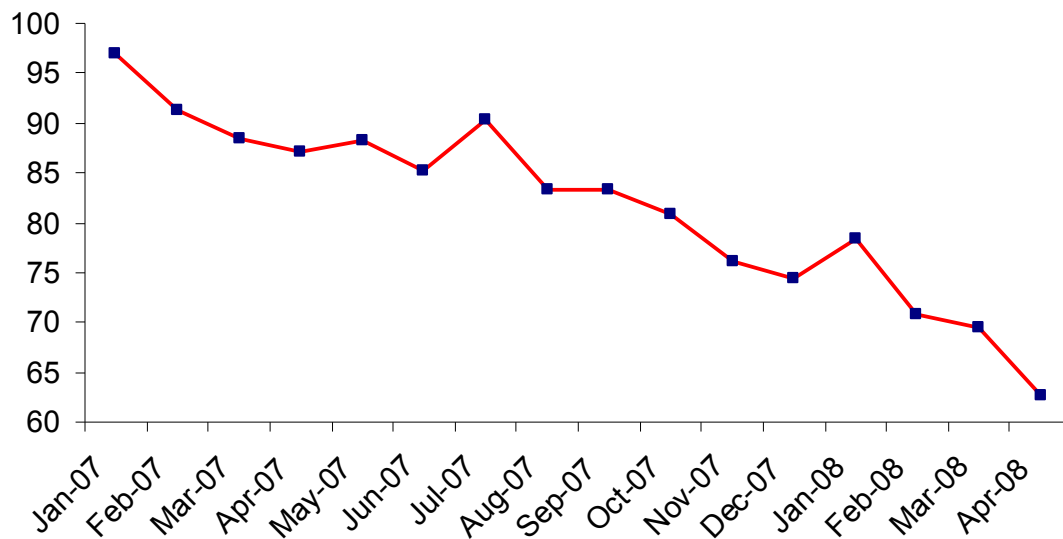
After four consecutive years of an improving fiscal position, this year will reverse course and continue down for the near term. Tax revenue growth is down while automatic spending is up. At the same time, policymakers responded to slower economic growth with a \$152 billion stimulus (1% of GDP) which dramatically widened the deficit. State governments are also facing fiscal pressures and spending exceeded revenues for the first time in 3Q. In summary, it is evident that the current fiscal picture is not pretty. However, we have seen in the past that the deficit can be wiped out quickly, and vice versa.

Economic Outlook

By Kevin Gamble

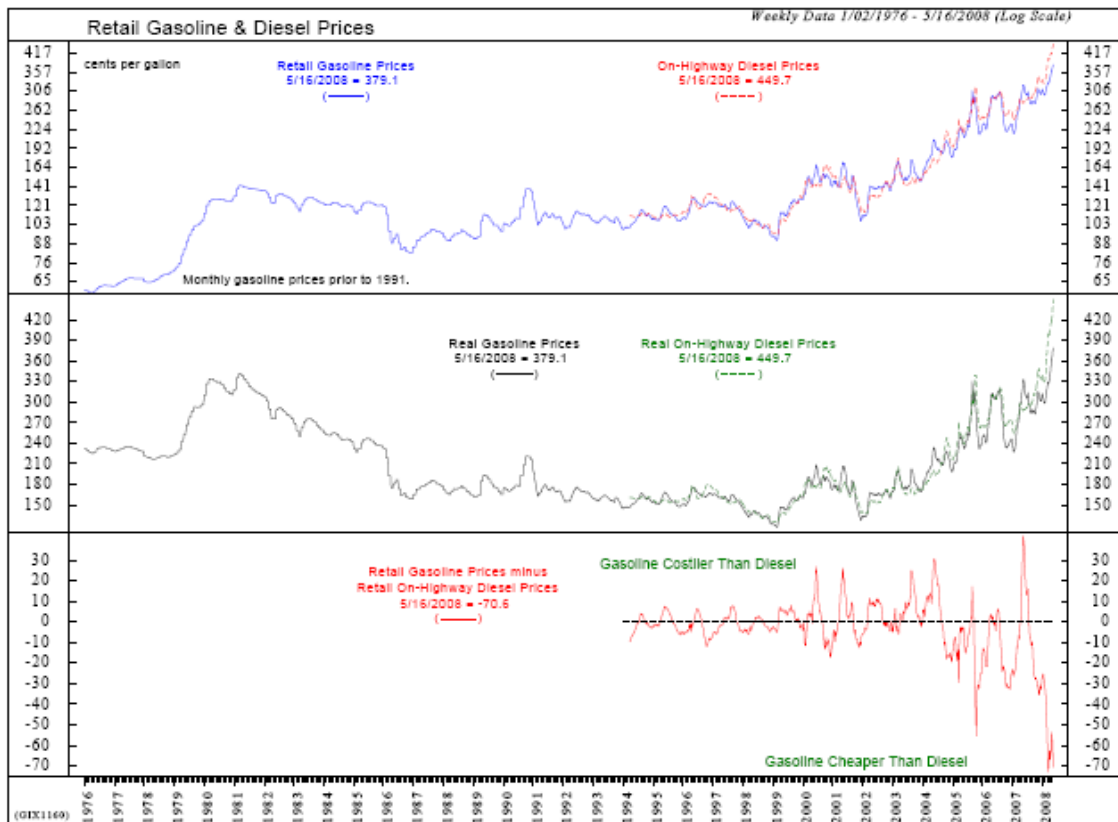
The American household squeeze has intensified as the price of a barrel of oil has exploded past the \$135 mark while gas prices at the pump in three major cities have surpassed the \$4/gallon level. Not surprisingly, the University of Michigan's consumer confidence survey has continued to deteriorate, recently sinking to a quarter century low in the April survey. The decline in confidence was attributed to high fuel and food prices as well as shrinking income gains and falling home values. "The recent acceleration in the loss in confidence indicates a longer and potentially deeper recession," according to Richard Curtin, director of the Reuters/University of Michigan Surveys of Consumers.

Chart 1: University of Michigan Consumer Confidence Survey



Source: Reuters/University of Michigan

Chart 2: Retail Gasoline and Diesel Prices Since 1976



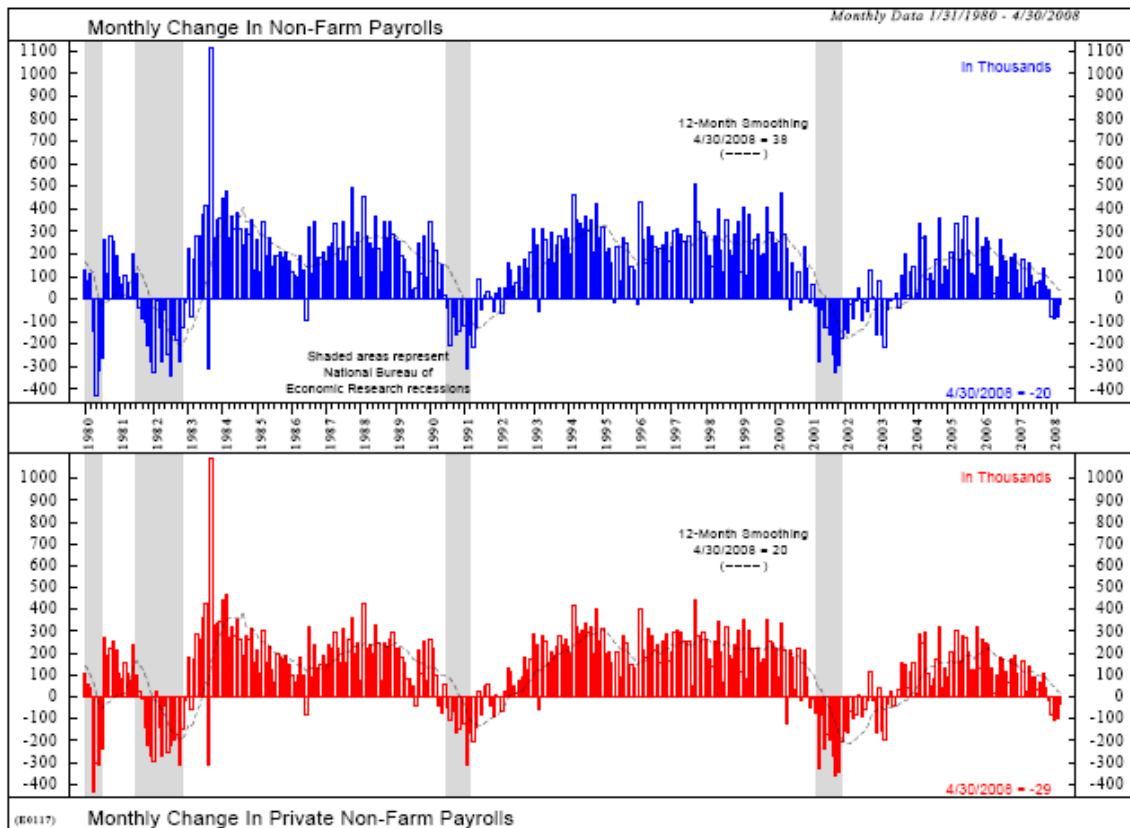
Source: Ned Davis Research

Given the rapid decline in consumer confidence, we continue to believe that the consumption component of GDP (roughly 70% of U.S. GDP) will be very challenged in the foreseeable future. Given this, the timing of the government rebate checks was actually pretty good as rebate checks began hitting consumer's bank accounts this month. These checks will hopefully ease the pain at the gas pump and keep things afloat for the time being. We do not view the rebate checks as a long-term solution to our problems, but rather a band-aid which provides a temporary stimulus to the economy in an election year.

Labor continues to be the key to this downturn!

The labor market continues to be the key variable in this economic downturn. It is absolutely imperative for the labor market to remain intact for this economy to have a chance to grow. While the labor market is certainly not strong, the positive is that the deterioration has not accelerated. This will be something to keep a close eye on as we move forward.

Chart 3: Monthly Change in Non-Farm Payrolls Since 1980

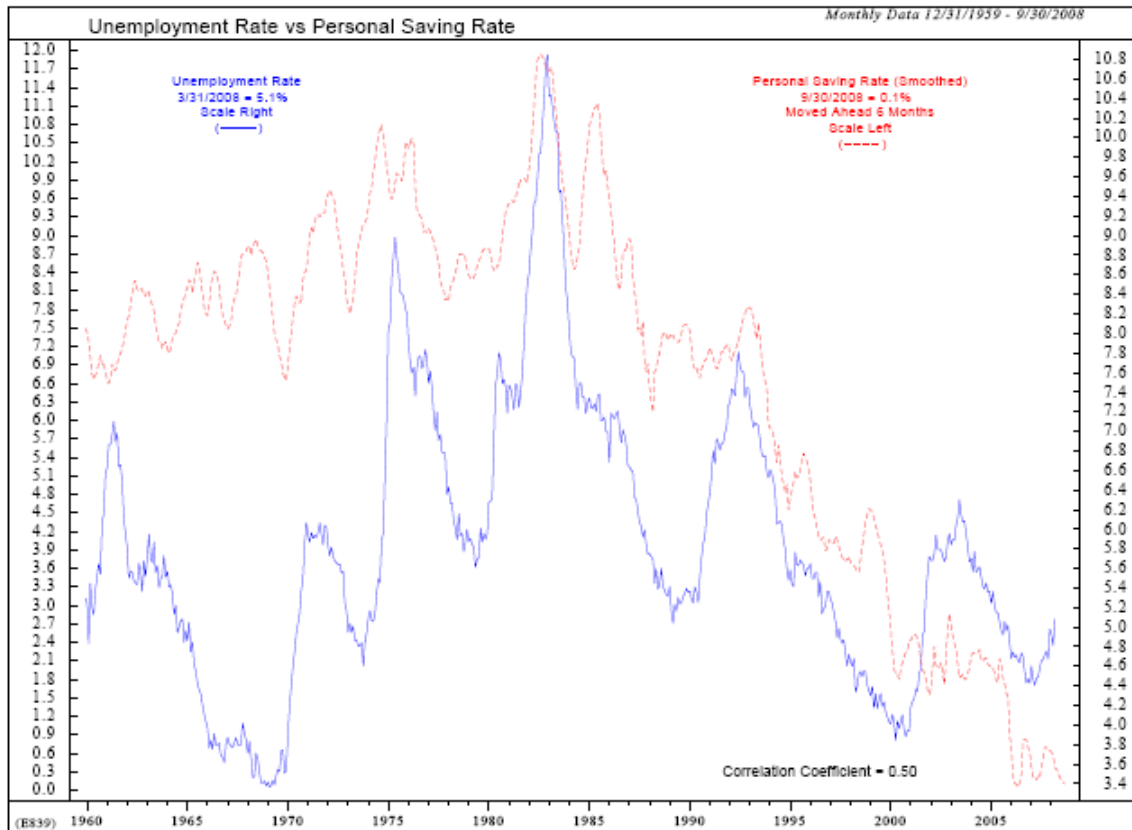


Source: Ned Davis Research

The American Consumer on the Edge

I cannot seem to shake Aerosmith's *Living on the Edge* from my head as I begin this segment. There is no doubt that the average consumer is doing just that. This fact can best be seen in commentary from Wal-mart that the "paycheck cycle" is getting more pronounced. In other words, people are waiting until the day they get paid in order to do their grocery/merchandise shopping. This is not surprising given the fact the US savings rate has been in a secular decline since the early 1980s when the savings rate was double digits to today when there effectively is no savings rate whatsoever!

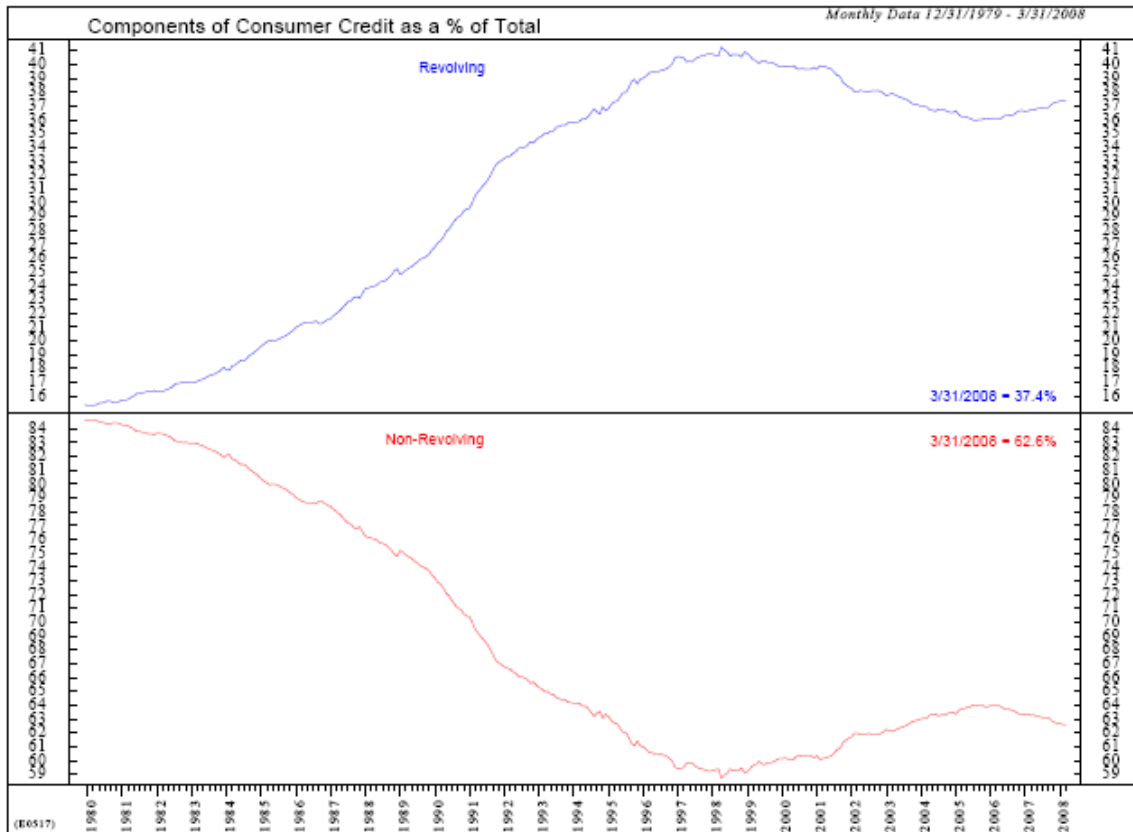
Chart 4: Unemployment Rate vs. Personal Savings Rate since 1960



Source: Ned Davis Research

The fact that people have not built in any cushion makes the problem of rising food and energy costs that much more problematic. In order to make ends meet, it makes sense that people either have to cut back spending or put it on the credit card or both. There is evidence that this is happening as credit card purchases have continued to rise. As borrowing availability from home equity lines of credit has dried up, consumers have begun to increase their percentage of credit card borrowing.

Chart 5: Components of Consumer Credit as a % of Total

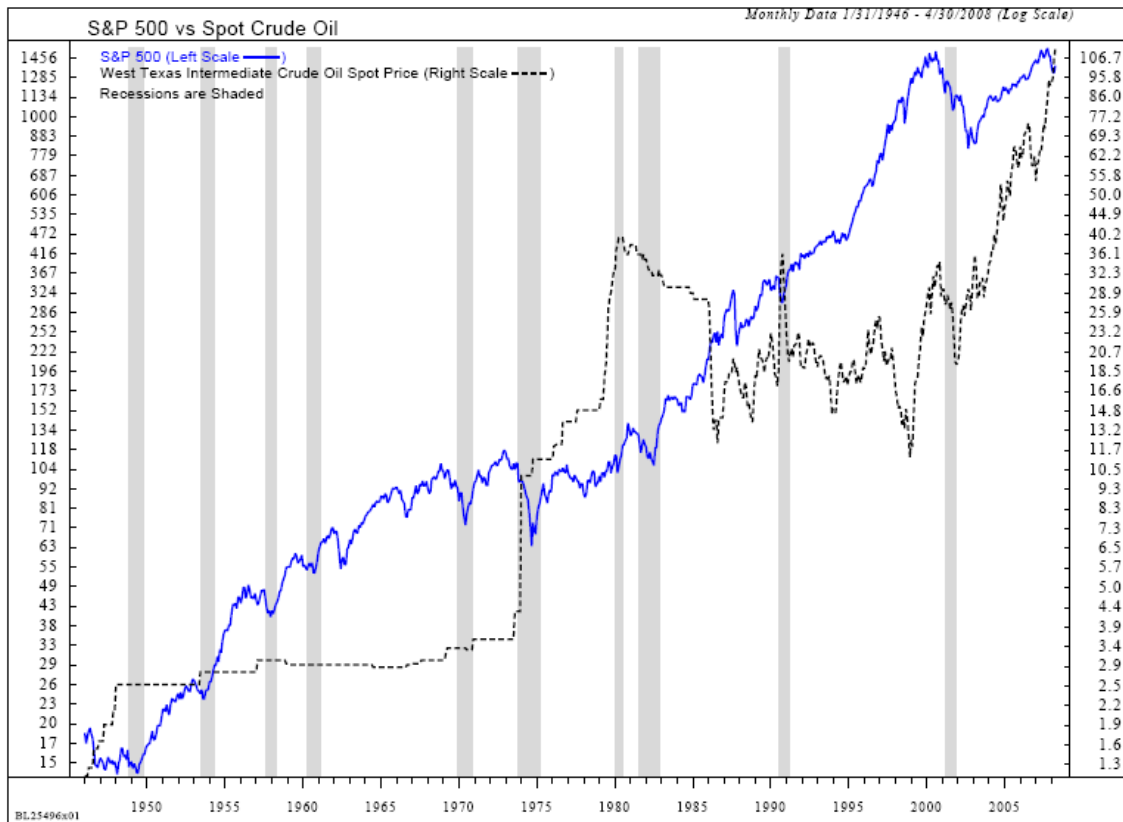


Source: Ned Davis Research

Does the spike in oil prices seal the deal on a recession?

It is highly likely the recent spike in energy costs all but seals the deal that we are already in a recession or will be in one shortly. The correlation between spikes in oil and recessions is almost perfect when looking at history. The following chart shows just that (recessionary periods are shaded). Notice the energy spikes that preceded the 1974 recession, 1980 recession, 1991 recession, and 2002 recession. The recent spike in oil prices is likely to lead to the same outcome.

Chart 6: S&P 500 vs. Spot Crude Oil with Recession Highlighted



Source: Ned Davis Research

What is the downside risk to the economy?

The economic similarities between where we are today and where we were at the beginning of the Great Depression in the early 1930s in the United States remain intact with the exception of the fact we have had a nice rally in the U.S. equity markets since we last met.

The similarities include:

- a) A deflating credit bubble
- b) Negligible savings rate among US consumers
- c) Falling stock prices (fortunately we have had a nice rally of late!)
- d) Real estate deflation
- e) Rapidly rising unemployment at the margin originating from fairly full employment
- f) Low interest rates (this is generally perceived as a good thing, but is nonetheless a similarity)
- g) A declining US dollar
- h) Healthy corporate balance sheets (this is generally perceived as a good thing, but is nonetheless a similarity)

- i) Large gap between the “haves” and “have nots” with a declining middle class
- j) Declining influence of organized labor
- k) Large gains in productivity not flowing through to labor

The Fed and the Congress are clearly aware of these similarities given their aggressive monetary and fiscal stimuli to the economy despite the fact we are not even technically in a recession yet. Time will only tell as to whether or not the string of fed rate cuts and rebate checks will have the desired positive effects on the economy. The rebate checks are likely to provide more of an immediate stimulus, while the fed rate cuts tend to work with a lag effect.

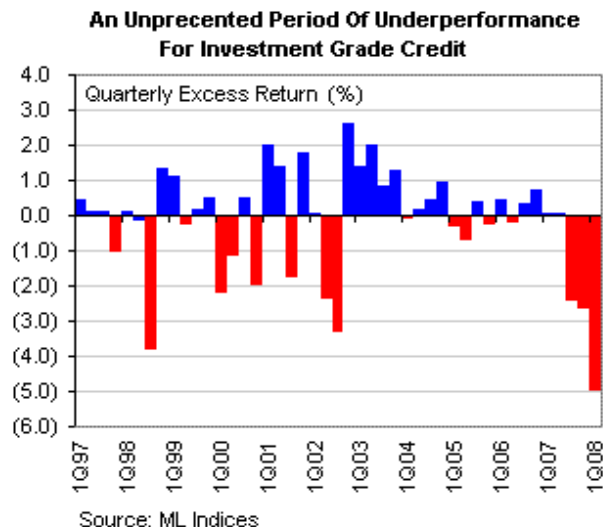
RSA PORTFOLIO STRATEGY

Interest Rates and Fixed Income Strategy

By Julie Barranco

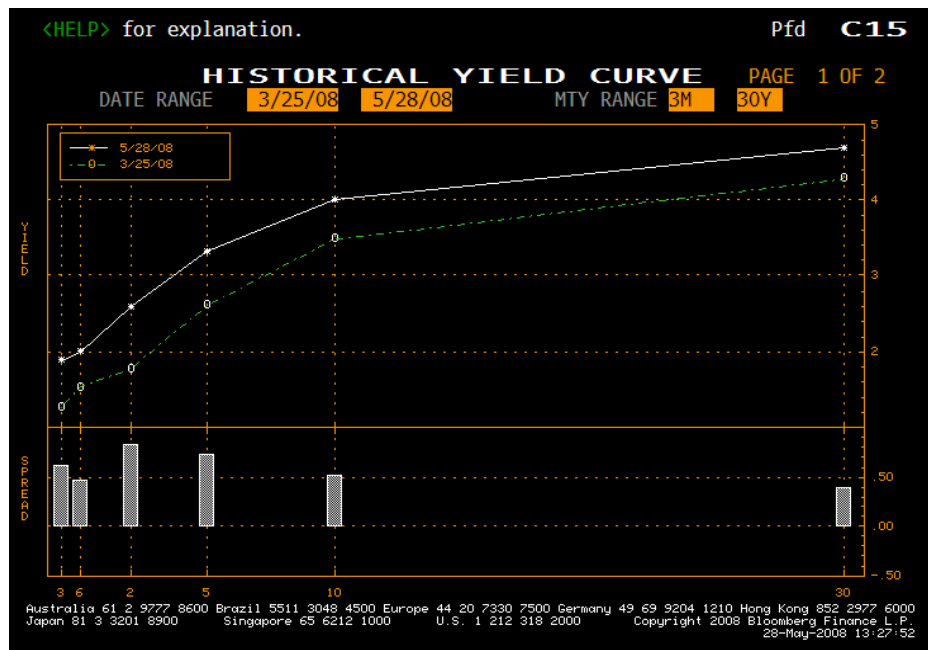
Since our last meeting in late March, bond market conditions have improved notably. The extraordinary amount of stimulus introduced into the markets over the past six months by the Federal Reserve has seemed to help stem the crisis situation and the level of systemic risk that was overtaking the financial system has certainly receded. Higher Treasury yields, tighter credit spreads and a flatter yield curve have been traits of this past quarter as market views have improved.

During the first quarter of 2008, the markets were experiencing the most severe financial crisis in years. Equity markets had declined nearly 20% from their October highs, the U.S. dollar was at record lows versus the Euro, commodity prices were rising and housing was continuing its deflationary spiral. These issues contributed to a credit market meltdown felt across all sectors and qualities. The Fed's response, by providing a creative set of policy actions as well as key financing for the merger of JP Morgan and Bear Stearns, was a great rescue attempt that many felt came just in the nick of time. Despite these actions late in the month, March returns fully reflected the stress in the financial sector as well as the rapid weakening of macro economic fundamentals. The investment grade index delivered its worst quarterly performance on record, led by finance names, as spreads pushed out to a new historical peak. The high yield and leveraged loan markets performed poorly as well, however spread widening was not as severe in these sectors as what was experienced in the investment grade sector. The chart below clearly depicts the underperformance of credit during the first quarter of the year:



While spreads in the credit and other sectors were moving wider in the first quarter of the year, the flight to quality theme came into play again for U.S. Treasuries as investors desired their safety and liquidity. This led Treasuries to return roughly 4.4% for the quarter, their best quarterly return since 1995.

The month of April brought a definite change in market sentiment. After a five month period of negative excess return, the tide finally turned and credit spreads came back strong; the corporate bond sector far outperformed all other sectors of the bond market. As liquidity began to improve, bond issuance began to ramp back up as well. In April, US investment grade corporate bond issuance was the second highest ever, with roughly half of the \$95 billion in issuance coming from the bank/finance sector as these entities continued to raise capital to offset credit and structured product related write downs. Despite the heavy issuance here, this sector delivered the best performance within the corporate bond index, followed by the industrial sector. As you would expect, this rally in credit spreads led to a sell-off in Treasuries as investors began to feel more comfortable with accepting risk and demand for credit increased sharply while demand for safety declined. Throughout May we have continued to see credit spreads improve, albeit not to the same degree as was seen in April. Corporate bond issuance has remained high throughout the month as the bank/finance sector as well as bellwether issuers like General Electric, continue to bring new deals and take advantage of the improved sentiment and liquidity within the bond market. Other spread product, including agency notes and mortgage backed issues, have also performed well during this time period, while Treasuries have continued to decline. The chart below shows the change in the yield curve since our last meeting and how the curve has begun to flatten again:



Treasury yields have been rising over the past couple of months, particularly on the short end of the curve. This has led to a flattening of the curve as the 2-year Treasury now yields around 2.60% and the 10-year Treasury note yields 4.00%, for a differential of about 140 basis points. This level is about 55 basis points less than the differential present at our last meeting. Many investors believe this flattening trend is occurring because of a pick up in inflation expectations, and will continue in the coming months. Fed Fund futures currently price in a 95% chance that the Fed will be on hold at the June meeting, and a 40% that they actually raise rates by the end of the year.

Other spread sectors have seen improvement over the past quarter, in addition to the credit sector. Agency and mortgage backed security spreads have improved from their wides in March, although they have not tightened back in to the levels seen prior to the credit crunch. Like the banks and finance companies, Fannie Mae and Freddie Mac, the two largest mortgage guarantors, have experienced their own share of write downs related to losses within the sub-prime mortgage sector. This has led to the need for them to raise new capital to boost their reserve levels, which they both did through the issuance of preferred shares as well as shorter term benchmark notes. Additionally, both agencies have had their required capital reserve limits loosened which will allow them to use more capital to purchase and guarantee additional mortgages. These, along with some additional changes, have been made to further stabilize the mortgage market and related industries which have in turn led to narrower spreads on Fannie Mae and Freddie Mac debt, particularly the mortgage backed securities.

With these issues in mind, it has still been a bit difficult to find attractive opportunities on the purchase or sale side. We have continued to add selectively to our corporate weighting by participating in some of the primary market issues. Issues added were large, liquid higher quality names in the consumer, finance, and oil sectors. Most of our purchases have been in the short to intermediate part of the curve so as to keep duration neutral within the corporate sector. Additionally, credit curves within many industries are fairly flat currently so investors are not getting paid to extend out in many issues.

During January and early February, we had several of our agency notes called as the call options moved into the money while interest rates decreased further. In March we had a couple more issues called away while rates remained lower, but into April and May we did not experience any calls as yields moved higher again. We have not been very active in the agency sector over the past couple of months as spreads in this sector have not been as responsive to the reduced systemic risk as other sectors have been. This is due in part to some negative headline risk associated with write downs taken at Fannie Mae and Freddie Mac, which we have discussed.

We have continued to selectively add some agency mortgage backed security exposure to the portfolio. This sector underperformed all other investment grade sectors by a wide margin during the first quarter of the year in the wake of liquidity problems within the financial sector and increased volatility in the marketplace. Spreads in this sector hit 20 year wides in Mid-March and at the time were yielding significantly more than agency notes. In addition, they have collateral backing the notes. We think there is definite value in some of the more seasoned issues with loans that originated before the peak of the housing bubble. Prepayment risk should be somewhat mitigated as incentives to refinance are reduced. As we can find these seasoned issues that are geographically diversified and have a good payment history, we will look to add to this sector as we feel spreads will continue to tighten back in and this sector will perform well as the financial sector continues to normalize.

Lastly, we added to our Treasury holdings recently by purchasing 2-year notes. After a large sell-off in April, particularly on the short end of the curve, yields looked more attractive than they had in some time. If the Fed is done easing short term rates, as more investors are starting to believe, it is likely that future moves higher will come at a slower pace than what the market is currently pricing in. Recent economic data, combined with an adverse wealth effect from falling home prices should dampen consumer spending throughout the year, thus making yields on the front end of the curve attractive in the near term.

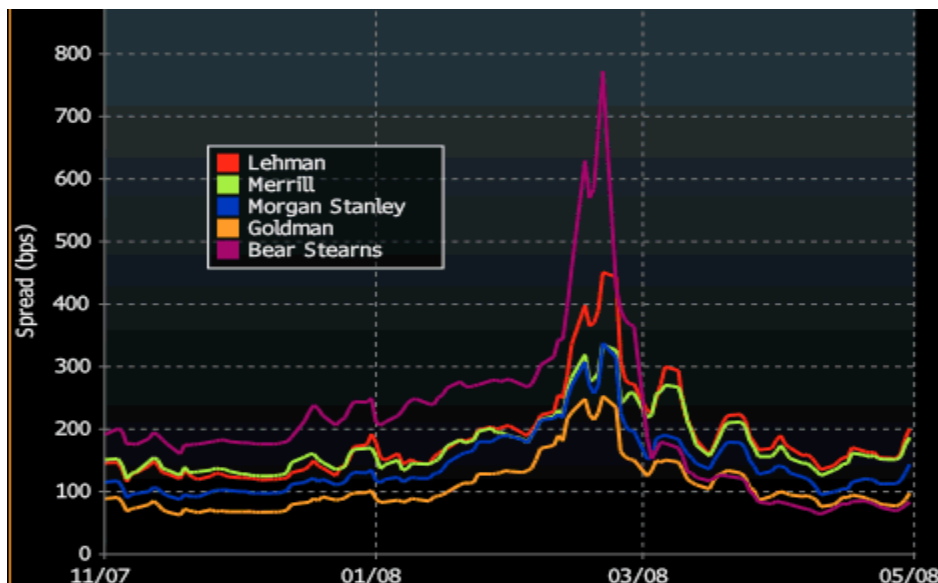
Domestic Equity Strategy

By Allan Carr

"The reports of my death are greatly exaggerated." Mark Twain said this in 1897 upon erroneous reports of his health, but the same could be said about the economy and financial system since our last update. While headwinds persist, the fears in March of a colossal economic and capital markets meltdown proved premature. The economy, while by no means humming, is hanging in better than expected. The stock market has recovered from the March lows in the face of a 30% spike in crude oil in that same time. The full effects of the tax rebates and Fed easing are yet to be felt and should provide a boost. Valuations remain attractive, especially if looking at them excluding financials. While there will undoubtedly be bumps in the road, we remain constructive on the equity markets.

While you probably do not need a reminder, when we last met there was immense panic in the markets following the seemingly overnight collapse of Bear Stearns. The S&P 500 had fallen over 15% in three months, credit default swap spreads were through the roof, treasuries were about the only thing accepted as collateral, and the VIX (volatility index) was at five year highs. The usual worries such as commodity inflation, housing, and the like were put on the backburner as fears of systemic risk and a seizing up of the capital markets were rampant. If Bear Stearns went bankrupt and had to unwind all their positions, it was going to cause a massive ripple effect that could send brokers, banks, hedge funds, and ultimately the economy right over the edge.

Now fast forward two months. As of the close of business on May 16, The S&P 500 had bounced back 12% from the March 10 low, spreads had tightened considerably, the VIX was down 50%, and no other broker dealers had gone belly up. The chart below shows the sharp run up in five year credit default swap spreads of the major U.S. broker dealers in mid March surrounding Bear Stearns, and then a return to more normalized levels shortly thereafter.



So what exactly changed to cause such a reversal? JP Morgan, with the help from the New York Fed, swooped down and saved Bear Stearns from defaulting. The Federal Reserve acted quickly and aggressively to ensure the capital markets did not collapse, with a series of unprecedented moves such as opening the discount window to broker dealers. Many have lamented that if only the Fed had opened the window a week earlier, the collapse of Bear Stearns might have been avoided. In a nutshell, the impressive snapback was due to the fears of systemic risk and a capital markets collapse dissipating considerably.

While the feared meltdown did not come to fruition, the major concerns that have been grabbing headlines for months still persist and in some cases have gotten worse. As mentioned in the economic section of this update, there continue to be considerable headwinds, especially for the U.S. consumer. Rising gas and food prices, employment worries, and the continued weakness in the housing market remain atop the short list of major concerns.

These concerns surrounding the economy are well known and documented. You can not pick up a paper or turn on the news without a mention of home prices falling or something about oil and gas prices. While we certainly acknowledge these headwinds and their implications, we feel a bit of solace in knowing that they are not undiscovered. With that in mind and to keep from rehashing the economic section of this update, we will focus on some of the positives that are not nearly as highly publicized.

Glass Half-Full Perspective

Let us start with one of the big headliners: inflation and in particular commodity inflation. The chart below shows the ranked returns of the Reuters/Jefferies CRB Index from the beginning of March, which is around the time many commodities were at their highs.

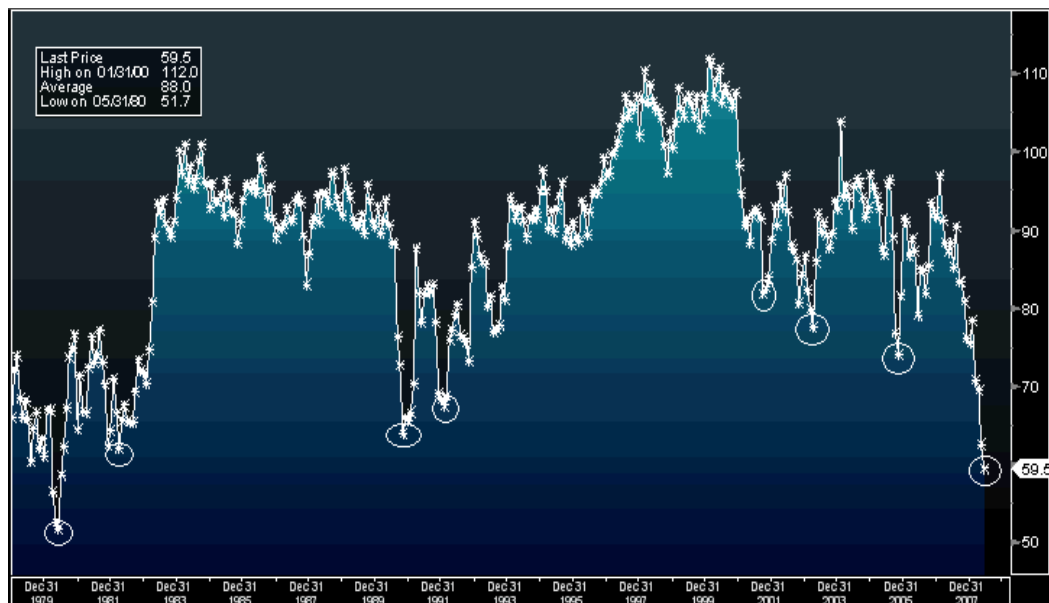


Most of what we have heard from the press is the top part of the chart which is dominated by energy related commodities. However, the bottom part is encouraging as it shows many commodities have come way down since hitting their highs, including food inputs such as sugar and wheat. Now if we could just get energy prices to come down, we could see some multiple expansion. Francois Trahan of ISI summed up this thought process in a piece by saying "The equity market is a discounting mechanism of future cash flows. Inflation plays a key role in this equation. Simply stated, rising inflation reduces the present value of future cash flows. Falling inflation is one reason that can increase the multiple on what investor's are willing to pay for each dollar of earnings."

While the reversal in many commodities is encouraging, we believe oil and gas coming down is crucial to the consumer and the economy. There is a growing debate going on in Washington surrounding speculators and institutional investors and the impact their investments in commodities is having on underlying prices. There have been calls to raise margin requirements to discourage speculators and even extreme suggestions such as prohibiting institutions from investing in commodities as a means of diversification. If it is determined that investors are becoming rich at the expense of consumers, rest assured that lawmakers will intervene. While this debate is in the early innings and is unclear, it is a topic worth keeping an eye on.

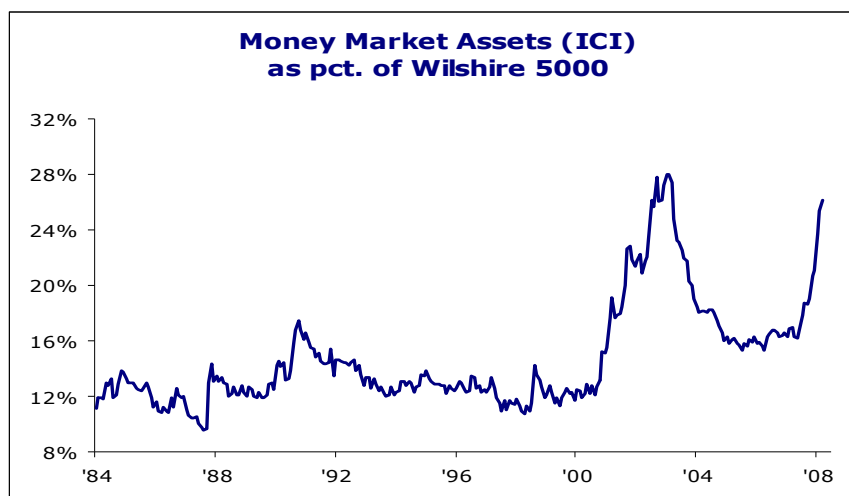
Another highly publicized overhang has been the enormous losses taken by financial institutions. The losses have predominantly come from subprime mortgages and the large multinational banks such as Citigroup and UBS, as well as the broker dealers have taken the brunt of it. Their share prices reflect the carnage and they continue to pay for their transgressions. Perhaps more importantly though, these same firms have been able to come to the market and raise capital with relative ease, albeit at a price. Bloomberg data shows that U.S. firms have taken losses to the tune of \$162B so far, but have been able to replenish capital levels by raising roughly \$141B in new capital. So while shareholders have had to take their lumps through stock price declines and dilution, we see the ability for these firms to raise capital as a positive as it gives them more cushion to absorb losses and still remain well capitalized by regulatory standards. Stronger liquidity and capital ratios reduce the probability of another Bear Stearns occurring. At recent conferences, executives of major firms such as Goldman Sachs and JP Morgan have stated that the worst of the write-downs from things such as subprime, CDO's, and leveraged loans is behind us, and that the more important question going forward is what will happen with the economy.

As we have discussed in numerous prior updates, a measure we keep a close eye on as a contrarian indicator is consumer sentiment. Not surprisingly, consumer sentiment has fallen dramatically in recent months given all the well publicized fears we've discussed. The latest University of Michigan Consumer Confidence Present Sentiment reading released on May 16 was the lowest since 1980. The chart below shows the survey results for the last thirty years with the white circles showing bottoms in sentiment.



If history is any indicator, this should be a good thing for the market as equity returns following bottoms in consumer sentiment have been impressive. Compliments of Strategas Research, the average return following the seven highlighted bottoms in sentiment above are as follows: 7.9% three months, 12.3% six months, and 16.5% one year.

Another positive that is hard to ignore is the enormous amounts of cash hiding out. The chart below, compliments of Strategas Research, shows that money market assets as a percentage of the total value of U.S. equities is at its highest level since the post-bubble downturn.

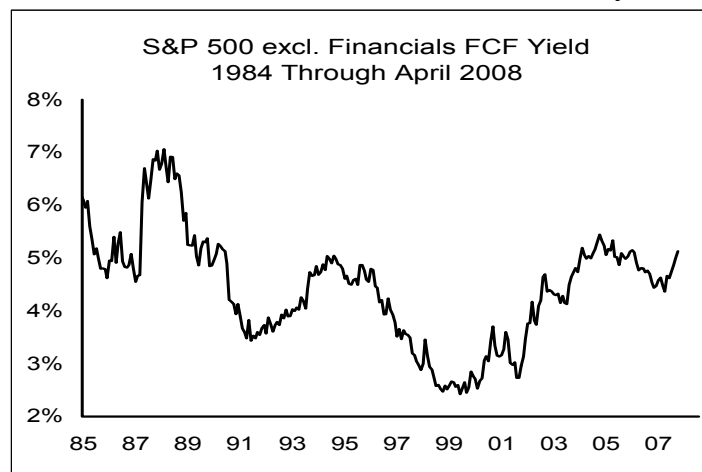


With 325 basis points of Fed easing, yields on these roughly \$2.5T in money market instruments have become less and less attractive. Add in money in sovereign wealth funds, private equity funds, and corporate balance sheets and there is a slug of money waiting to be deployed as opportunities arise. We have already seen signs of money stepping in with the capital raises in financial companies.

Catalysts that do not need much explanation but are nonetheless worth noting are the government's fiscal and monetary policy actions. The Fed has made it clear that they will do what it takes to keep the economy from falling off a cliff with the laundry-list of actions they have taken. While rate cuts are possibly done, their impact is not. Indeed, 225 of the 325 basis points of Fed easing have taken place in the last six months, so the full effects have yet to be seen. The \$100 billion plus of tax rebates continue to be sent out and whether it is spent on a new TV, to pay down debt, or to save for a rainy day, the stimulus will help. Ed Hyman of ISI points out that "every week the economy holds up, we're closer to when the tax rebate helps, and more importantly, the Fed's actions help." He suggests that "we are still in a race against time" and up to this point "time is winning."

Lastly, and what we like to always come back to whether in good times or bad, is earnings and valuation. Contrary to what you would think by the "doomsday" reports in the media, earnings are holding up. According to Strategas, second quarter earnings were down 5.5% year over year. However, if you look at 2Q earnings excluding financials, they were up 10.6%. We agree with Strategas' statement that "we have never been big fans of 'stripping' selected sectors from the aggregate to prove a point, but the past six months of Financial earnings have skewed the Index's overall results so much it almost seems 'unfair' to the other 9 sectors. In 1Q'08 and again in 2Q...S&P non-Financial earnings have posted double-digit Y/Y gains." Given the extreme nature of the financial write downs we discussed earlier, we feel looking at the picture ex-financials is worthwhile if only for perspective.

While estimates vary from person to person, the S&P 500 is trading somewhere around 15-17x calendar year 2008 earnings. Once again, stripping out financials makes valuation even more compelling. The chart below from Bernstein Research shows that valuation remains attractive on a free cash flow yield basis.



Outlook and Activity

In conclusion, we still face multiple headwinds and only time will tell if the actions taken by the Fed will once again save the economy. It is hard to argue that early signs do not show they are already working at least to some degree. In what we feel is likely to be the norm over the coming months, the market has pulled back from the nice rally it had into mid-May. We expect the market to remain choppy as investors grapple with what the outcome will be of this Ed Hyman dubbed “race against time.” If the economy can continue to hang in there and give the stimulus time to work, we feel confidence will improve and focus will ultimately shift to an end being in sight on housing. From reading research and talking to others, we believe further deterioration in housing through the remainder of the year is in most forecasts. The wildcard in our opinion is energy prices. We feel strongly that oil and gas prices coming down would be a huge catalyst for both economic and psychological reasons. With valuations still attractive and trillions in cash waiting on the sidelines, we remain optimistic on the equity markets.

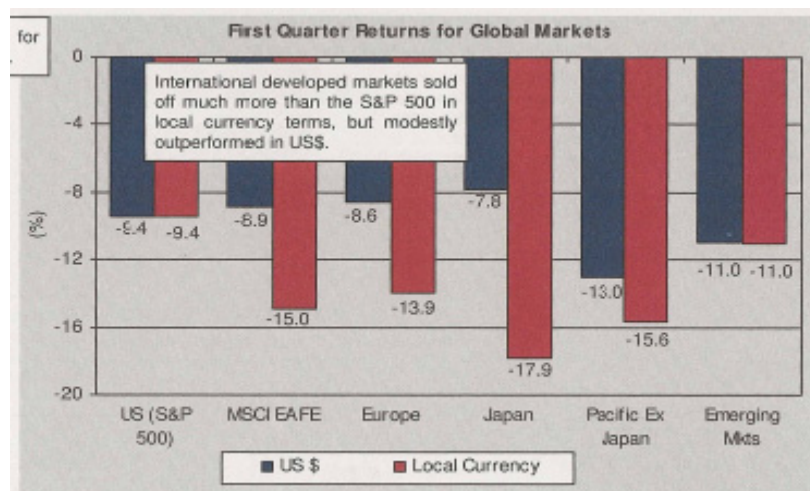
As far as activity, we have used weakness to add to select names in the active funds but have made no sizable moves. Given the impressive move in energy names, we have been using strength to overwrite some of our overweight in the Core Fund as we feel some of the names may have gotten ahead of fundamentals. Other than bringing names up to full positions in the SSF (Special Situation Fund), we have not been adding to financial names as we feel estimates need to bottom out before they can make a sustained move higher.

A relative bright spot for us has been the equity linked notes (ELNs) that we have participated in. Recall that these notes give us downside protection along with leveraged returns up to the stated cap rate, with the trade off being that we give up the upside participation beyond a certain threshold. To date we have had three ELNs expire. The two ELN's tied to our S&P 500 exposure have resulted in outperformance of roughly 2.37% and 1.6% versus the benchmark, while the emerging markets ELN gave us an impressive 23.2% return over the twelve months we held it. We have rolled the principal in these notes into new ELN's as we continue to feel they offer attractive risk/reward in scenarios in which the markets do not rip to the upside.

International Equity Strategy

By Steve Lambdin

The first quarter of 2008 proved to be a difficult quarter for nearly all global equity markets. Concerns surrounding a near U.S. recession, a growing credit problem in many regions around the globe, rising inflationary pressures from food and energy costs, and a consumer who lacks confidence have come together to make this quarter one of the weakest periods for equity investors in some time. The housing problems of falling prices and elevated inventory levels seemed to have worsened during the quarter in the U.S. and many parts of Europe. Many markets around the world officially entered a “bear market” during the quarter, as the peaks reached in October 2007 gave way to more than -20% losses by mid-February. At the height of these losses, was the near collapse of U.S. investment banking firm Bear Stearns, which sent global financial stocks into a downward spiral. However, many markets did recover somewhat by the end of March. It has been a long time since we have seen volatility at these levels. As has been the case over the last couple of years, the U.S. Dollar continued to slide during the quarter, which provided some relief to the very weak local market returns. As we move through the second quarter, investors will be watching developments with crude oil, as record prices look to continue to pressure an already weak global consumer. Also, corporate earnings are falling in the U.S., Japan, and parts of Europe, as investors look for signs of stabilization or further deterioration, which could provide the direction of these equity markets during this time period.



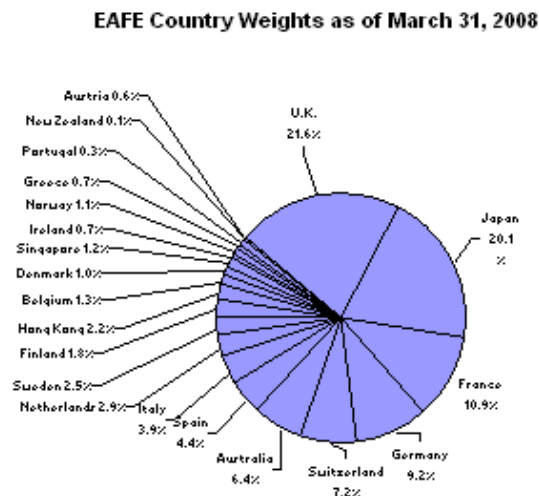
Source: Hammond Associates

The MSCI EAFE Index (net dividend) returned -8.9% during the quarter vs. -9.4% for the S&P 500 Index. A falling U.S. Dollar continued to be the driver of this modest level of this outperformance. Within the MSCI EAFE Index, the European region slightly outperformed the Asian region, as the Hong Kong equity market was very weak. The best performing countries were Denmark (0.00%), Ireland (-1.20%), and Switzerland (-2.10%), while Hong Kong (-18.90%), Greece (-15.80%), and New Zealand (-14.70%) were the laggards during the quarter. From an economic

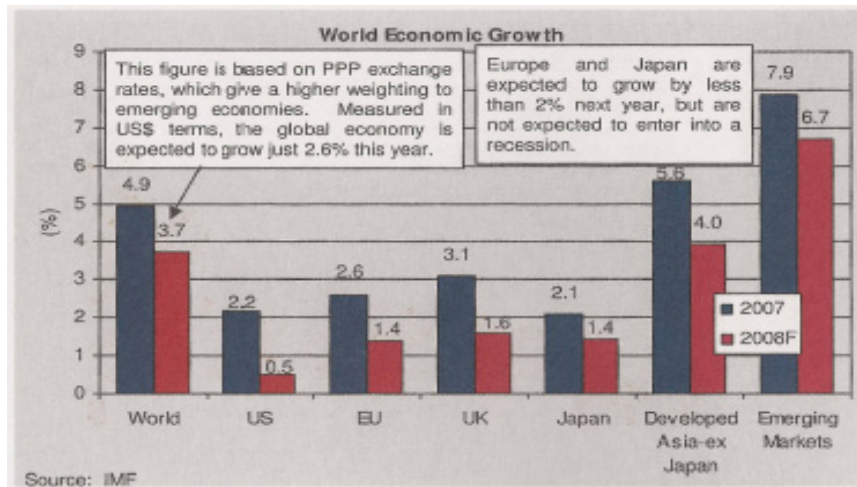
sector standpoint, Basic Materials and Staples stocks were areas of strength, while Financials, Telecom, and Technology stocks were detractors from performance. During the first quarter, the U.S. Dollar fell approximately -7.45% vs. Euro and -11.05% vs. the Japanese Yen, and rose +.90% vs. the British Pound.

The table below shows the performance of each EAFE country's national indices broken down between local market return and the USD return during the first quarter of 2008.

Country	Local Return	Curr Return	USD Return	EAFE Weight
United Kingdom	-10.40%	-0.10%	-10.50%	21.60%
Japan	-17.90%	10.10%	-7.80%	20.10%
France	-15.40%	7.00%	-8.40%	10.90%
Germany	-18.60%	6.90%	-11.70%	9.20%
Switzerland	-14.50%	12.40%	-2.10%	7.20%
Australia	-15.10%	3.40%	-11.70%	6.40%
Spain	-12.90%	7.30%	-5.60%	4.40%
Italy	-18.50%	6.80%	-11.70%	3.90%
Netherlands	-13.80%	7.20%	-6.60%	2.90%
Sweden	-11.40%	8.00%	-3.40%	2.50%
Hong Kong	-19.00%	0.10%	-18.90%	2.20%
Finland	-17.40%	6.90%	-10.50%	1.80%
Belgium	-10.60%	7.50%	-3.10%	1.30%
Singapore	-11.40%	4.00%	-7.40%	1.20%
Norway	-16.20%	5.70%	-10.50%	1.10%
Denmark	-7.70%	7.70%	0.00%	1.00%
Greece	-22.30%	6.50%	-15.80%	0.70%
Ireland	-8.90%	7.70%	-1.20%	0.70%
Austria	-16.90%	7.00%	-9.90%	0.60%
Portugal	-19.90%	6.70%	-13.20%	0.30%
New Zealand	-16.50%	1.80%	-14.70%	0.10%
EAFE	-15.00%	6.10%	-8.90%	100.00%



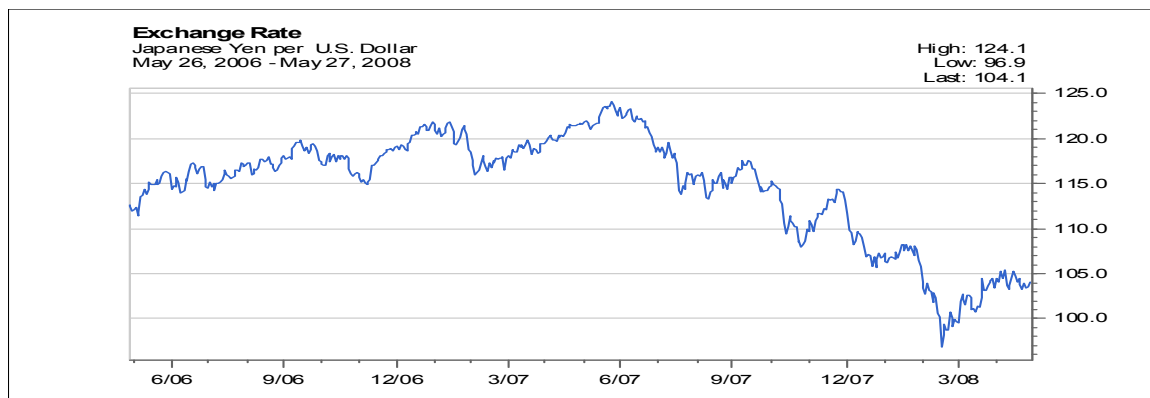
So far in the second quarter of 2008, we have seen a rebound in many equity markets around the world. Investors have become a bit more comfortable as the U.S. Fed seems to be continuing to be very aggressive with its monetary policies in order to bring a functional calmness to the credit markets and attempt to avert a U.S. recession. With this in mind, investors have been active in many markets in Europe and Asia, taking advantage of valuation levels not seen in many years. From the end of March thru late May, the MSCI EAFE Index (net dividend) and the S&P 500 Index are up approximately +6.10% and +5.1% respectively. However, at this point, the ultimate economic outcome remains in doubt as the global consumer remains in a tough position, inflation expectations are rising, commodity prices are rising, housing markets continue to decline, and large financial institutions appear to have a need for more credit related write downs. As we all know, early summer can be quite a volatile time in the global equity markets and this year should be no different.



Source: Hammond Associates

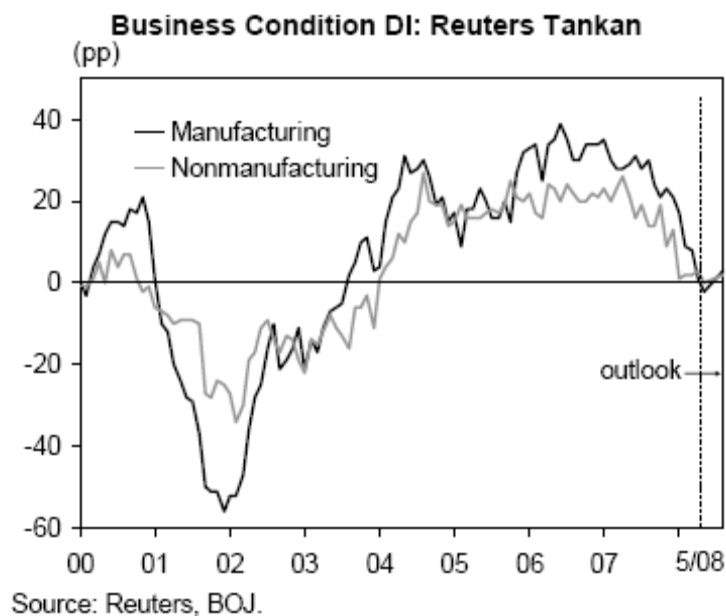
Presented below are some charts showing the movement of various currencies:



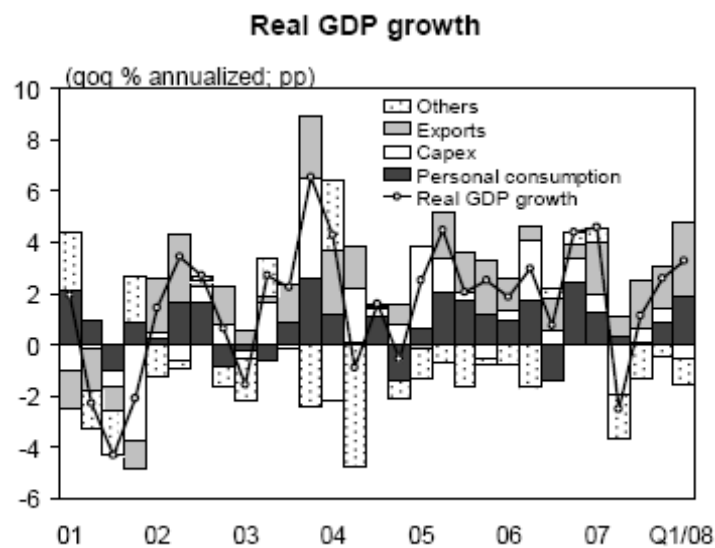


Japan Update

After suffering through a miserable fourth quarter of 2007, the first quarter of 2008 did not provide much in the way of relief. The Nikkei 225 Index fell by -8.8% in the first quarter of 2008 as a weakening outlook for corporate earnings and increasing concerns surrounding consumer confidence remained key issues during this time. Of course, a weakened U.S. economy did not help the Japanese equity markets either. A stronger yen also has provided a headwind as Japan's economy is very dependent on a healthy export environment. Business prospects and employment indicators remain weak and could turn down further, as these issues remain a risk over the near term. Even though Japan's economy remains in a weak state, we still believe that exports to emerging markets remain quite healthy for this economy and as a result of this, Japan's economic growth could be higher than the U.S. in 2008.



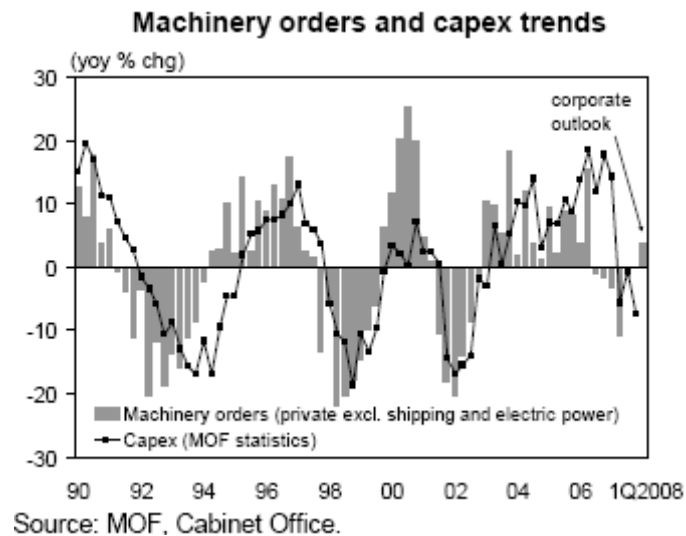
On a positive note, Japan's GDP growth in the first quarter of 2008 came in at +3.3%, well above the +2.5% consensus analysts estimate. At the same time, fourth quarter 2007 GDP growth was revised down to +2.6%, from initial readings of +3.5%. On a net to net basis, we feel the economy in Japan is on a more solid footing than the U.S. As expected, Japan's export environment remains robust and more resilient than most investors believe. Exports to other Asian economies, especially the emerging economies, were the main pillar of growth, while exports to the U.S. remained rather lackluster. Of the .8% in growth over the previous quarter, net exports accounted for .5% of this, or approximately 2/3 of this increase. Domestic demand accounted for the remainder of GDP growth from the previous quarter. This is in the face of household confidence that has slumped to a five year low in April. Japan's leading economic index fell to 20% in March, well below the 50% level, which is a signal that tough economic times lay just ahead. However, we have been surprised by the continued strength in the emerging market economies, which has been very good for the Japanese economy. With this in mind, we feel Japan's economy should perform better than the U.S. in 2008, but still below potential levels in a normal world climate. Also, the Bank of Japan (BOJ) may not cut rates as we previously expected as the economy is surprising to the upside.



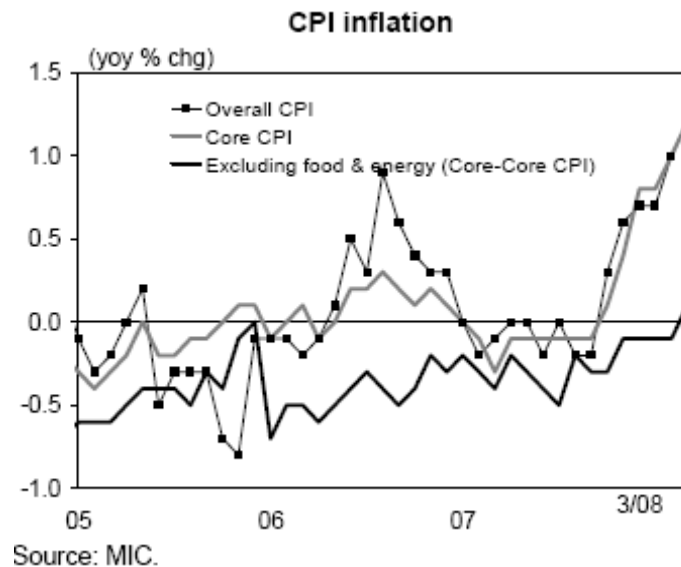
Source: Cabinet Office.

While Japan's industrial production was up +2.9% and +5.1% in January and February respectively, production fell -.7% in March, indicating a tough climate lies ahead. We are seeing recent evidence of production cuts at Honda and Toyota, as a weak U.S. economy has been hard on the automobile industry. As we all know, this is a very large industry for Japan's economy and will be very hard to turn around quickly. Also, the electronic components industry has been cutting production as well, responding to slower order rates from the U.S. While this is certainly not good for the global economy, it is not surprising in today's climate. As a result, machinery orders have fallen off which probably means a more difficult

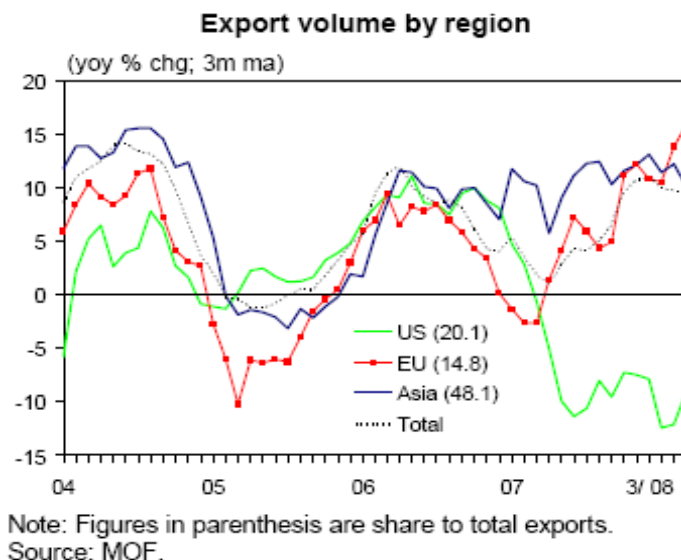
capital spending environment over the next few months. Going forward, our biggest fear is if the emerging markets slow down to a point where they cannot absorb the slack from a weak U.S. economy. If this happens, Japan's surprisingly strong growth could take a leg down and make for a difficult investing backdrop.



Core consumer prices rose +1.2% in March, the fastest rate in the last several years as higher input costs are being passed along to the consumer. With what is happening with energy and commodity prices, this does not come as much of a shock to us. We have felt this would bring an end to the deflationary environment seen in Japan for many years. We expect this to continue over the next few months as well, as we see little reason to expect lower commodity input costs over the near term. However, this is coming at a time when consumer confidence continues to set new multi-year lows and wage growth cannot keep up with rising food and energy prices. Companies are raising prices in order to defend profit margins. Time will tell if this is successful or not. The March unemployment rate fell to 3.8% from 3.9% in February, which is a slight positive in our opinion. We feel this is a structurally good number, especially with what is happening in the global economy. However, the jobs-to-applicant ratio continues to slip and was recently reported at .95 in March. The new hiring environment still remains very difficult at the present time. Companies are very reluctant to bring on new workers until they see some break on rising input costs.

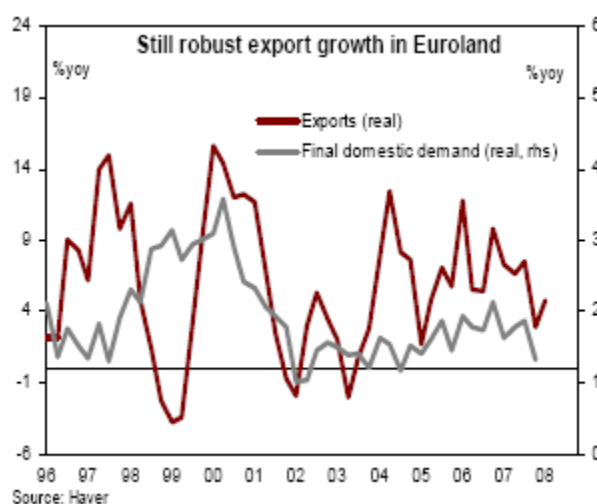


At this point, we have been surprised by the Japanese economy. With what has been happening around the globe, we would have expected GDP growth to have come in lower than what has been reported. Emerging markets have held up much better than expected, as the infrastructure build-out continues at a good pace. However, we still believe that Japan will struggle as the U.S. economy flirts with a recession in mid 2008. This should keep growth rates below its potential growth. The consumer will continue to struggle with higher costs from food and energy going forward. Overall business conditions will probably deteriorate from current levels, but should avoid severe pain due to the strength in the emerging markets. As far as the equity markets go, we could see a rally in Japan as many believe Japan will avoid a recession and growth stays ahead of the U.S. From a valuation standpoint, the equity markets look very cheap on a price to earnings and price to cash flow basis. However, while we expect investors to remain nervous, sometimes markets can climb higher as many worry. We would not be surprised to see this happen.

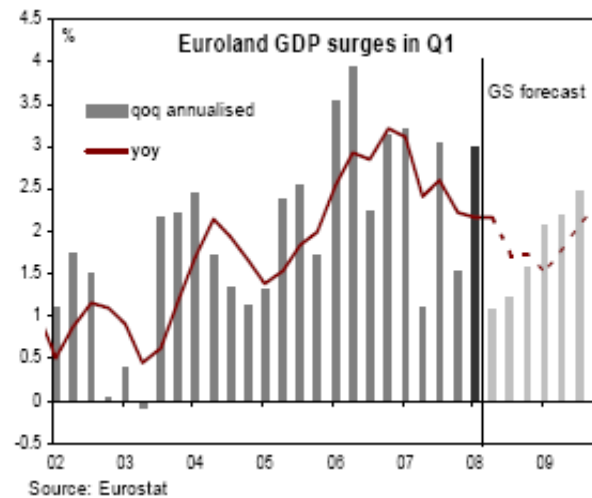


Euroland Update

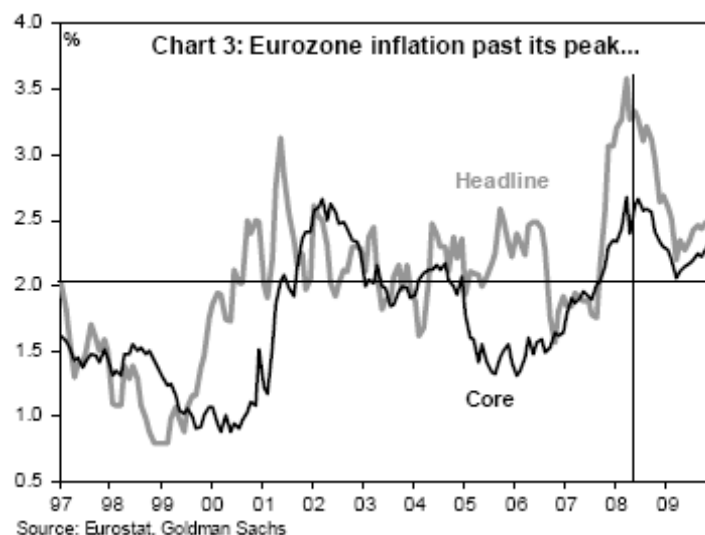
The Euroland equity markets suffered through a tough first quarter of 2008, much the same as the rest of the world. The MSCI Europe region finished with a -8.6% USD return for the quarter. Results would have been much worse had it not been for a weakening U.S. Dollar. The Euro remains strong as the ECB has refused to lower interest rates as inflation fears in this region are a top priority at this time. Consumer and business confidence indexes remain at fairly weakened levels, creating a tough environment for equities to perform well in. Investors are very worried about corporate earnings as a slowing world economy and increasing input costs are pressuring profit margins. On the brighter side, the European consumer is in better shape than the U.S. consumer, which should keep Euroland out of a recession barring a major turn of events.



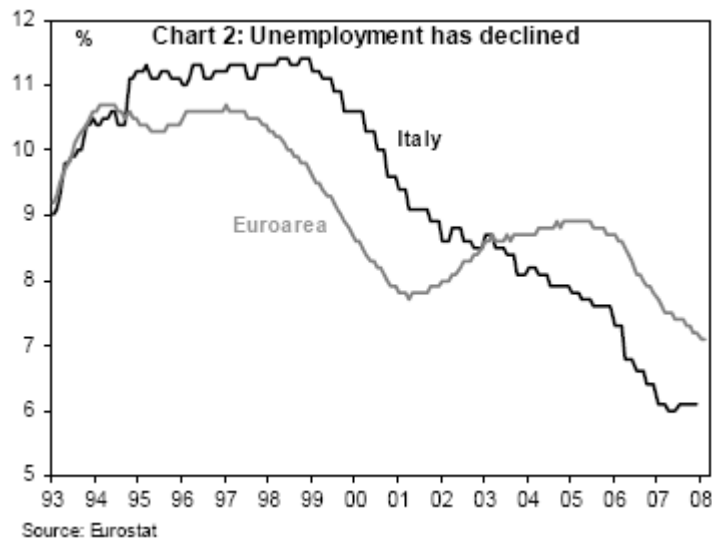
In another surprise, first quarter 2008 GDP rose +2.2% from the year ago period. This is well above the +1.9% expectation which many investors were looking for. The real catalyst behind this number was surprising strength in Germany, as GDP was twice the pace analysts had expected. Growth in France was also well ahead of expectations. The Euroland economy shrugged off a weak U.S. economy, while exports to the emerging markets remained rather healthy. It looks like other big economies around the globe are dealing with a slowing U.S. economy much better than anticipated. However, a strong Euro still hurts this region in addition to rising energy and commodity costs. We feel these could come into play in the second quarter. Inflation still remains above targeted levels by the European Central Bank (ECB) and should keep interest rates much higher here than in the U.S. Business and consumer sentiment indexes have continued to fall late in the first quarter which should make for a tough business climate over the near term. At this point, we see growth slowing down from the pace seen in the first quarter, but will remain above levels we will see in the U.S. in 2008.



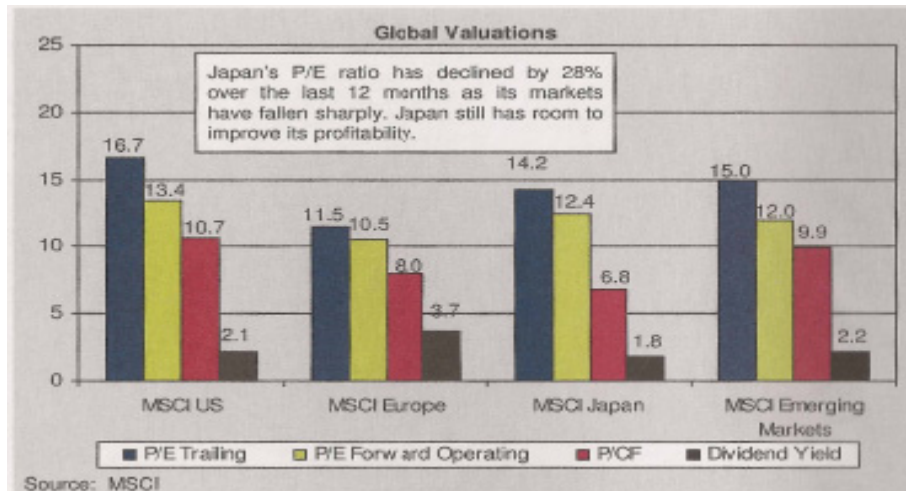
As has been the case since the first of the year, the ECB did not raise its main lending rate at its April and May meetings. Its main lending rate remains at 4.00%. Inflation rates have risen this year and remain at levels well above targeted levels. Energy and food prices keep escalating and are forcing the ECB to maintain interest rates probably higher than they would like. The ECB has been able to maintain a higher level of interest rates as the economy in Euroland has been stronger than many anticipated. Though likely to slow from current levels, the economy in Euroland looks to be decently sound with no major imbalances, according to Trichet. He further believes that these high interest rates will be enough to contain inflation and eventually send it toward targeted levels. However, we feel this may be difficult to do over the short term as energy prices seem to be spiraling higher. Inflation has recently been reported at +3.3% in April. Until the ECB sees a break in inflation, interest rate cuts could be on hold. However, we still feel economic growth risks lie to the downside in 2008, but acknowledge the ECB has done a good job of a difficult balancing act.



On a brighter note, unemployment in the Euroland continues to head in the right direction. For the first quarter of 2008, the unemployment rate fell to 7.1% from 7.2% in the fourth quarter of 2007. This new level is yet another record low for this region. Job growth continues in industries benefiting from a strong export climate. The biggest concern at this point is worker demands for larger wages. As we know, this can be very inflationary by itself and would add to mounting inflationary pressures already present in the region. We feel businesses will be very sticky to their position that large wage increases will be difficult to approve, especially as the economy is growing below a decent trend level.



To summarize our opinion, we like what we have seen from the Euroland economy in the first quarter. Growth was robust as exports to the emerging economies continues to surprise many and masks a tough domestic consumption landscape. However, business conditions look to be tougher as we move through the second quarter which we feel will keep a lid on any further substantial upside economic growth surprises. We feel this region will not fall into a recession, but growth will be fairly muted. The ECB will keep interest rates high to battle inflation, but at a detriment to the Euro currency. The ECB will continue to monitor the current credit crisis very closely and take actions they feel are necessary to maintain orderly financial markets. With the recent weakness in equity markets during the first quarter, valuations have been pushed down to very attractive levels. We would not be surprised to see a bit of a market rally across many markets in Euroland as investors place bets on what the future will look like in this region.

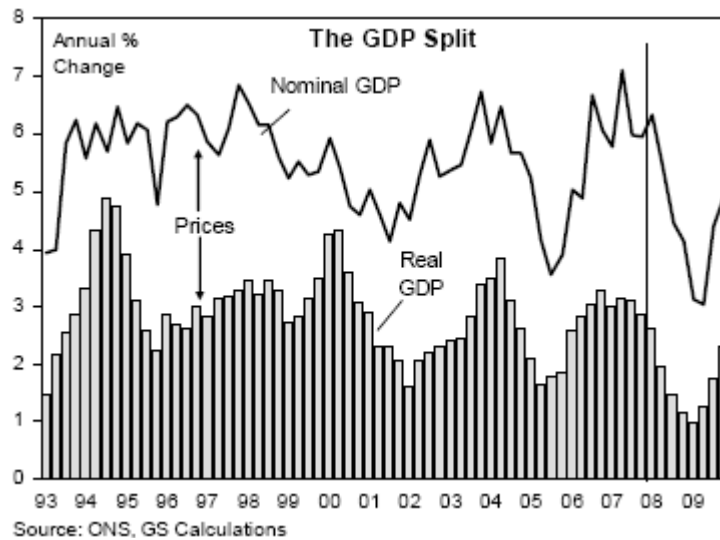


Source: Hammond Associates

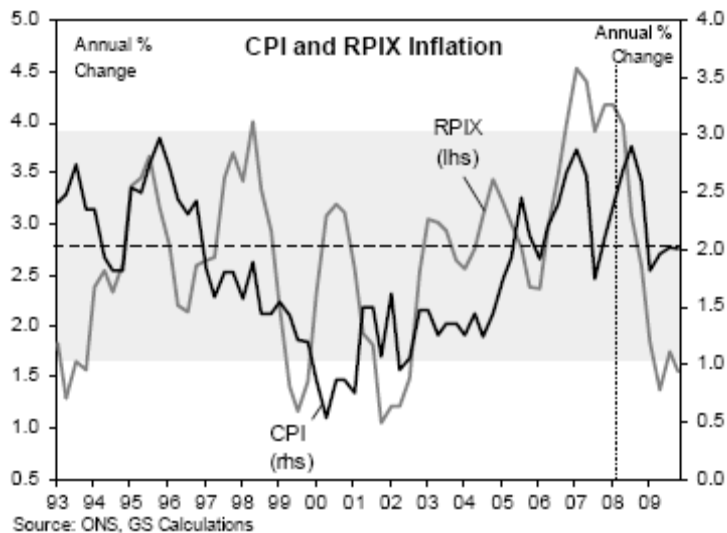
United Kingdom Update

During the first quarter of 2008, the U.K. equity market was relatively weak when compared to the U.S., Japanese, and Euroland equity markets. The -10.5% USD return was moderately less than the other major regions around the world. Investors remained very nervous toward equities here as the U.K.'s financial services industry continues to flounder and suffer from many of the same problems seen in the U.S. Financial stocks remained under pressure as the world watched developments with Bear Stearns and investors feared the same thing could happen with firms in the U.K. Large losses in the mortgage industry continue to plague several firms and housing prices continue to fall, much like here in the U.S. In addition, the telecommunications industry was pressured during the quarter as Vodaphone Group suffered significant losses. At this point, we feel the Bank of England (BOE) remains ready to take quick actions should the mortgage situation deteriorate further in order maintain confidence and stability in the financial system.

In the first quarter of 2008, the U.K. economy expanded +.4% from the previous quarter, or +2.5% on a year over year basis. This is the slowest pace in three years. The financial services sector has been under duress as large writedowns continue to zap strength from this group. However, GDP growth in the U.K. remained above Japan, Euroland, and the U.S. during the quarter. The housing slump continues to be an area of great concern in the U.K. Building level indexes are falling as the construction industry continues to shrink. Housing prices are falling and potential buyers are avoiding the market. Just as in other parts of the world, rising energy and food prices have led to falling consumer confidence. In fact, consumer confidence is at some of the lowest levels in many years. Even though retail sales rose in the first quarter from the year ago period, there is a clear deceleration throughout the first quarter and April's number has continued the deceleration. Nearly all sides of the economy have weakened and the near term outlook does not look a whole lot better.

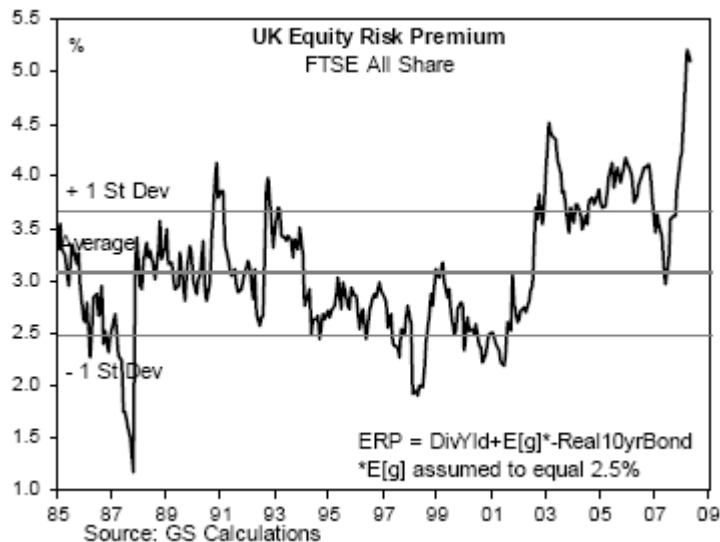


After keeping interest rates steady at its March meeting, the BOE opted to cut its key repurchase rate by 25 basis to 5.00% at its April policy meeting. Upheaval in the credit markets along with a slumping housing market were enough to push The Monetary Policy Committee (MPC) to this action. This action is in contrast to the ECB, which kept rates steady, as the MPC took a pause from the inflation fight to keep the credit markets functionally operational. The credit crisis in the U.K. is as much of an issue here as it is in the U.S. Also, this interest rate cut should help the consumer as credit costs should come down a bit and make credit more available for some. However, the MPC is certainly trying to play a balancing act of staving off a recession while battling inflation. At its May policy meeting, the MPC opted to leave interest rates unchanged at 5%. This rate remains the highest among the Group of Seven industrialized nations. Recent sharp upward movements in commodities and energy look to have brought about an end to interest rate cuts, at least over the short to medium term. Inflation remains well above the BOE's target level. At this point, until we see lower food and energy prices, we feel cutting interest rates could bring about more inflation, which is just what the BOE does not want. We also feel the economy in the U.K., while stronger than in other regions around the world, remains in a heightened risk state for slower growth ahead. The U.S. credit contagion has certainly spread here as the BOE has agreed to swap mortgage debt for government bonds in order to keep the market properly functioning between banks, much the same as the U.S. Fed. We believe the BOE has done a good job of balancing economic woes against rising inflation, while doing this all within a major credit market debacle.



During the first quarter of 2008, we would characterize employment data as fairly steady with a slight negative bias vs. the previous quarter. Using ILO standards, the unemployment rate in the first quarter held steady at 5.2%, the same as the previous quarter. However, we are worried going forward as recent jobless claims have been rising, which should lead to higher unemployment levels. This could lead to weaker consumer spending in the coming quarters. Total employment did rise slightly to 29.5 million workers, but jobs created were less than new entrants into the job market. Wage growth also remained relatively even from the previous quarter at +3.8%. We still believe that higher worker wage growth above these levels will be difficult to secure as economic conditions look set to fall.

At this juncture, we definitely see the U.K. economy slowing down considerably from the pace in 2007. GDP growth in the +1.6% range in 2008 would not surprise us. Just as in other regions of the world, this is well below potential growth. At this level, this would indicate a moderately weak second and third quarter, while we could see a bit of a rebound in the fourth quarter. However, the U.K.'s economy while weak could exceed the rate we see in Euroland, Japan, and the U.S. We continue to believe that an outright recession in the U.K. will be avoided. The financial services side of the economy remains a "wildcard" as the credit crisis continues. Inflation is even a bigger problem now vs. just three months ago and has put the BOE in a tough position. The housing industry remains a mess here as we see little in the way of positives over the next few months. Earnings growth looks set to fall as well. Just how much of this has already been discounted into the equity markets varies by each investor's opinion. We feel a lot of this is reflected in the marketplace, as valuations have been pushed down to some of the lowest levels of major industrialized nations, but catalysts to push equities significantly higher look to be elusive.



International Equity Activity/Strategy

As we enter the summer of 2008, economic growth remains an area of great concern. Global credit losses continue to mount and should get worse over the next couple of quarters. Global central banks have done a good job of maintaining order in the credit markets thus far, as this is the life blood of the global economy. While the U.S. economy may enter a recession at some point in 2008, we do not expect this to lead to a worldwide recessionary environment. Europe, Japan, and the U.K. should all post growth in excess of what we will see in the U.S. for 2008. In addition, emerging markets will have decent growth prospects in 2008, though down from the pace we saw in 2007. Energy prices remain very concerning, as crude oil has risen to approximately \$135 a barrel. This is putting more inflationary fuel into the global picture. We expect interest rates in the U.S. to remain at current levels, as further cuts over the near term look less likely. As for the ECB and the BOE, we could see some interest rate cuts toward the back half of 2008, but only if inflation looks better. Housing market woes look to continue in the U.S. and things could be even tougher in the U.K. and parts of Europe. We remain very nervous and watchful as this develops further in Europe. The global employment outlook should worsen a bit from here, but might not be as bad as feared, which could be a source of resiliency for the global economy. The consumer looks to be in a tough position over the near term, with rising living expenses and a low wage growth environment. As we look at the headwinds facing investors today, it's difficult to gauge how much of these issues are discounted in the equity markets already. However, we feel a fair amount has been as global equity markets have been weak over the last six months. As a result of this correction, equity market valuations in Europe, Japan, and many emerging markets remain below levels seen in the U.S. Cash flow yields and dividend yields remain more attractive as well. The big concerns remain whether we will see a key reversal in the U.S. Dollar and how much will corporate profits fall going forward. The answer to these concerns could determine equity market behavior for the next few months.

We have not made any incremental investments into or out of our international equity portfolio since our last update. We continue to evaluate structured note equity product in the developed and emerging markets area for investment opportunities. International equity valuations remain attractive and we remain opportunistic should situations present themselves. Our total allocation to international equities is approximately 16% of total TRS and ERS assets and near 9% of the JRF total assets. Therefore, we expect to have a weighting to this asset class in the 15% to 18% range over the near term. *(Charts provided by Factset, Hammond Associates, Bloomberg, Bank of England, Goldman Sachs, Haver, ONS, Eurostat, MOF, MIC, Cabinet Office, Reuters, BOJ)*

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
TRS CORE FUND	1,899,080,832	5.85	1.36	-4.63	-7.81	-3.88	8.58	11.53	3.07	Oct-94
TRS GOLDMAN SACHS GROUP INC	213,667,884	5.18	1.29	-1.78	-1.10	1.86				Aug-06
TRS MORGAN STANLEY	142,628,520	5.14	3.35							Feb-08
TRS CREDIT SUISSE	170,194,000	-1.05								Apr-08
TRS S&P 500 FUND	4,815,189,513	4.86	1.01	-5.04	-8.19	-4.64	8.33	10.71	4.01	Oct-94
TRS S&P MID CAP INDEX	876,691,667	7.66	4.57	-1.92	-4.44	-2.70	11.19	15.17	9.72	Oct-94
TRS S&P SMALL CAP INDEX	406,926,700	4.07	1.35	-3.56	-9.78	-8.93	8.76	14.50		Mar-01
TRS SMALLCAP ACTIVE FUND	77,436,258	4.38	2.19	-2.23	-8.33	-9.49				Jun-06
TRS SPECIAL SITUATIONS	477,806,048	6.13	3.26	-0.98	-6.86	-5.99	11.34	13.99	6.56	Oct-94
TRS TOTAL DOMESTIC EQUITY	9,079,621,422	5.33	1.50	-4.24	-7.42	-4.31	8.87	11.71	4.38	Oct-91
TRS CUSTOM DOMESTIC EQUITY INDEX		5.24	1.55	-4.50	-7.76	-4.65	8.70	11.55		
S&P 500		4.87	1.03	-5.03	-8.20	-4.68	8.23	10.62	3.89	
S&P 400 MIDCAP		7.71	4.62	-1.83	-4.50	-2.76	11.20	15.20	9.65	
S&P 600 SMALL CAP		4.01	1.20	-3.75	-9.96	-9.05	8.76	14.73	7.41	
<u>INTERNATIONAL EQUITY</u>										
TRS ALLEGRO INVESTMENT CORP SA	83,528,949	5.45	8.52	5.61	8.18	17.91				Mar-07
TRS MORGAN STANLEY PLUS NOTES MSCI	73,282,590	6.57	13.98	11.98	16.53	24.17				Mar-07
TRS MERRILL LYNCH INTERNATIONAL	36,517,760	5.26	7.91	5.12	4.28					Aug-07
TRS INTERNATIONAL EQUITIES	3,270,886,457	5.46	5.92	-3.72	-5.20	-1.16	16.57	20.80	7.09	Nov-94
TRS TOTAL INTERNATIONAL EQUITY	3,464,215,755	5.48	6.19	-3.09	-4.38	-0.13	16.98	21.05	7.20	Oct-94
MSCI EAFE (NET)		5.43	5.81	-3.96	-5.64	-1.78	16.25	20.42	6.66	

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
TRS TOTAL GLOBAL EQUITY	12,543,837,177	5.37	2.76	-3.92	-6.60	-3.18	10.86	13.79	7.26	Oct-75
TRS CUSTOM GLOBAL EQUITY INDEX		5.30	2.70	-4.36	-7.18	-3.85	10.56			
<u>FIXED INCOME</u>										
TRS DOMESTIC FIXED INCOME	2,519,126,029	-0.44	-0.09	1.66	4.55	6.67	5.77	6.46		Aug-99
TRS CUSTOM DOMESTIC FIXED INDEX		0.03	-0.02	1.56	4.31	5.92	4.61	4.34		
TRS TOTAL FIXED (ex. Private Placements)	2,519,126,029	-0.44	-0.09	1.66	4.55	6.67	5.76			Oct-03
TRS CUSTOM GLOBAL FIXED INDEX		0.03	-0.02	1.56	4.31	5.92	4.57			
TRS PRIVATE PLACEMENTS	3,171,671,545	0.59	-2.01	-1.43	0.35	3.74	12.18	11.72		Aug-99
TRS CASH ACCOUNT	53,209,992	0.22	0.74	1.11	2.36	4.97	4.86			Sep-03
TRS TOTAL FIXED INCOME	5,744,007,565	0.13	-1.02	0.06	2.33	5.13	8.78	8.87	7.41	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
TRS PREFERRED STOCK	511,711,881	3.73	0.33	0.44	0.17	-0.55	9.14			Sep-03
TRS REAL ESTATE	1,550,200,906	0.00	0.72	0.72	0.72	6.13	3.96			Oct-03
TRS INTERNALLY MANAGED	389,453,553	0.26	0.84	1.27	2.66	5.05	4.94			Oct-03
TRS TOTAL ALTERNATIVES	2,451,366,339	0.78	0.70	0.83	1.12	4.88	4.89			Oct-03
TRS TOTAL F.I. PLUS ALTERNATIVES	8,195,373,904	0.33	-0.50	0.28	1.93	5.00	7.59	7.70	6.83	Oct-93

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
TRS TOTAL PLAN POLICY		3.58	1.85	-2.81	-4.51	-1.88	7.87			
TRS TOTAL PLAN	20,739,211,081	3.32	1.45	-2.31	-3.42	-0.10	9.45	10.79	7.04	Oct-88

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
ERS CORE FUND	1,022,256,350	5.85	1.37	-4.62	-7.63	-3.66	8.67	11.52	3.05	Oct-94
ERS GOLDMAN SACHS GROUP INC	95,995,716	5.19	1.29	-1.77	-1.10	1.86				Aug-06
ERS MORGAN STANLEY	64,079,480	5.14	3.35							Feb-08
ERS CREDIT SUISSE	77,181,000	-1.05								Apr-08
ERS S&P 500 FUND	2,187,548,812	4.86	1.01	-5.04	-8.19	-4.64	8.33	10.77	4.03	Oct-94
ERS S&P MID CAP INDEX	387,467,463	7.66	4.58	-1.90	-4.38	-2.63	11.20	15.20	9.75	Oct-94
ERS S&P SMALL CAP INDEX	167,352,029	4.07	1.35	-3.56	-9.78	-8.91	8.78	14.49		Mar-01
ERS SMALLCAP ACTIVE FUND	38,130,159	4.37	2.20	-2.20	-8.31	-9.47				Jun-06
ERS SPECIAL SITUATIONS	256,693,571	6.15	3.31	-0.95	-6.81	-5.92	11.52	14.11	6.53	Oct-94
ERS TOTAL DOMESTIC EQUITY	4,296,704,581	5.36	1.51	-4.23	-7.39	-4.26	8.88	11.75	4.40	Oct-93
<i>ERS CUSTOM DOMESTIC EQUITY INDEX</i>										
<i>S&P 500</i>		4.87	1.03	-5.03	-8.20	-4.68	8.23	10.62	3.89	
<i>S&P 400 MIDCAP</i>		7.71	4.62	-1.83	-4.50	-2.76	11.20	15.20	9.65	
<i>S&P 600 SMALL CAP</i>		4.01	1.20	-3.75	-9.96	-9.05	8.76	14.73	7.41	
<u>INTERNATIONAL EQUITY</u>										
ERS ALLEGRO INVESTMENT CORP SA	39,894,460	5.45	8.52	5.61	8.18	17.91				Mar-07
ERS MORGAN STANLEY PLUS NOTES MSCI	35,000,640	6.57	13.98	11.98	16.53	24.17				Mar-07
ERS MERRILL LYNCH INTERNATIONAL	19,685,355	5.26	7.91	5.12	4.28					Aug-07
ERS INTERNATIONAL EQUITIES	1,437,809,371	5.46	5.93	-3.72	-5.28	-1.23	16.53	20.74	7.10	Nov-94
ERS TOTAL INTERNATIONAL EQUITY	1,532,389,826	5.48	6.22	-3.02	-4.37	-0.09	16.98	21.02	7.22	Oct-94
<i>MSCI EAFE (NET)</i>		5.43	5.81	-3.96	-5.64	-1.78	16.25	20.42	6.66	

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
ERS TOTAL GLOBAL EQUITY	5,829,094,407	5.39	2.72	-3.91	-6.60	-3.17	10.78	13.74	6.03	Oct-93
<i>ERS CUSTOM GLOBAL EQUITY INDEX</i>		5.29	2.64	-4.37	-7.20	-3.88	10.47			
<u>FIXED INCOME</u>										
ERS DOMESTIC FIXED INCOME	1,167,179,353	-0.44	-0.08	1.71	4.65	6.75	5.74	6.53		Sep-99
<i>ERS CUSTOM DOMESTIC FIXED INDEX</i>		0.02	-0.02	1.57	4.31	5.92	4.61	4.33		
ERS TOTAL FIXED (ex. Private Placements)	1,167,179,353	-0.44	-0.08	1.71	4.65	6.75	5.72			Oct-03
<i>ERS CUSTOM GLOBAL FIXED INDEX</i>		0.02	-0.02	1.57	4.31	5.92	4.58			
ERS PRIVATE PLACEMENTS	1,551,445,883	0.59	-2.11	-1.52	0.23	3.62	12.26	11.68		Aug-99
ERS CASH ACCOUNT	47,615,913	0.22	0.74	1.11	2.35	4.95	4.95			Sep-03
ERS TOTAL FIXED INCOME	2,766,241,149	0.15	-1.09	0.01	2.26	5.07	8.86	8.97	7.39	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
ERS PREFERRED STOCK	478,303,464	3.94	0.53	0.60	0.45	-0.23	9.53			Sep-03
ERS REAL ESTATE	755,118,558	0.00	0.68	0.68	0.68	6.21	3.95			Oct-03
ERS INTERNALLY MANAGED	35,028,189	0.25	0.82	1.26	2.64	5.05	4.94			Oct-03
ERS TOTAL ALTERNATIVES	1,268,450,211	1.42	0.68	0.78	1.03	4.28	5.56			Oct-03
ERS TOTAL F.I. PLUS ALTERNATIVES	4,034,691,360	0.55	-0.53	0.22	1.76	4.70	7.74	7.85	6.84	Oct-93

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
ERS TOTAL PLAN POLICY		3.54	1.78	-2.84	-4.53	-1.93	7.65			
ERS TOTAL PLAN	9,863,785,767	3.35	1.36	-2.27	-3.34	-0.08	9.33	10.71	6.91	Oct-93

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
JRF S&P 500 FUND	123,911,190	4.86	1.02	-5.03	-8.18	-4.62	8.36	10.72	4.02	Oct-94
JRF S&P MID CAP INDEX	11,628,458	7.66	4.57	-2.29	-4.78	-3.05	11.16	15.15	9.74	Oct-94
JRF S&P SMALL CAP INDEX	3,664,998	4.07	1.35	-3.55	-9.80	-8.94	8.80	14.82		Mar-01
JRF TOTAL DOMESTIC EQUITY	139,204,646	5.06	1.32	-4.77	-7.95	-4.59	8.62	11.20	4.57	Oct-93
<i>JRS CUSTOM DOMESTIC EQUITY INDEX</i>		5.08	1.32	-4.74	-7.95	-4.65	8.49	11.10		
<i>S&P 500</i>		4.87	1.03	-5.03	-8.20	-4.68	8.23	10.62	3.89	
<i>S&P 400 MIDCAP</i>		7.71	4.62	-1.83	-4.50	-2.76	11.20	15.20	9.65	
<i>S&P 600 SMALL CAP</i>		4.01	1.20	-3.75	-9.96	-9.05	8.76	14.73	7.41	
<u>INTERNATIONAL EQUITY</u>										
JRF ALLEGRO INVESTMENT CORP SA	1,246,676	5.45	8.52	5.61	8.18	17.91				Mar-07
JRF MORGAN STANLEY PLUS NOTES MSCI	1,093,770	6.57	13.98	11.98	16.53	24.17				Mar-07
JRF MERRILL LYNCH INTERNATIONAL	855,885	5.26	7.91	5.12	4.28					Aug-07
JRF INTERNATIONAL EQUITIES	19,925,601	5.49	5.98	-3.66	-5.15	-1.26				Nov-06
JRF TOTAL INTERNATIONAL EQUITY	23,121,932	5.53	6.59	-2.16	-3.20	1.24				Nov-06
<i>MSCI EAFE (NET)</i>		5.43	5.81	-3.96	-5.64	-1.78	16.25	20.42	6.66	
JRF TOTAL GLOBAL EQUITY	162,326,578	5.13	2.05	-4.40	-7.29	-3.78	9.18	11.55	4.73	Oct-93
<u>DOMESTIC FIXED INCOME</u>										
JRF DOMESTIC FIXED INCOME	53,445,348	-0.67	-0.40	1.21	3.98	5.72	5.69	6.53	5.23	Oct-93
<i>JRF CUSTOM DOMESTIC FIXED INDEX</i>		0.01	-0.04	1.56	4.35	6.09	4.64	4.40		

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
JRF PRIVATE PLACEMENTS	8,417,384	0.68	-5.81	-4.78	-4.50	0.01	17.19	13.31		Oct-01
JRF CASH ACCOUNT	5,301,053	0.22	0.75	1.13	2.37	4.65	4.62			Sep-03
JRF TOTAL FIXED INCOME	67,163,784	-0.42	-1.00	0.38	2.68	4.87	7.38	7.61	5.91	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
JRF REAL ESTATE	2,562,900	0.00	1.42	1.42	1.42	6.14	4.34			Oct-03
JRS INTERNALLY MANAGED CASH	21,033,035	0.26	0.89	1.33	2.75	5.14	4.88			Oct-03
JRF TOTAL ALTERNATIVES	23,595,935	0.23	0.95	1.34	2.56	5.25	4.77			Oct-03
JRF TOTAL F.I. PLUS ALTERNATIVES	90,759,719	-0.24	-0.50	0.65	2.72	5.03	6.97	7.37	5.79	Oct-93

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING April 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
JRF TOTAL PLAN	253,086,297	3.13	1.12	-2.62	-3.86	-0.67	8.37	9.83	6.31	Oct-93
<i>JRF TOTAL PLAN POLICY</i>		3.55	1.40	-2.82	-4.32	-1.32	7.19			